

## **California Water Service Group**

### **Audit Committee Charter**

#### **I. Purpose**

The purpose of the Audit Committee of the Board of Directors is to assist the Board in oversight of the quality and integrity of the Company's financial statements and the Company's compliance with legal, regulatory and reporting requirements. The Committee is solely responsible for the selection, qualifications and compensation of the Company's independent auditors, including oversight and evaluation of Company's Independent Registered Public Accounting Firm (IRPAF) and internal audit function.

#### **II. Committee Membership**

The Audit Committee shall be comprised of three or more directors appointed annually by the Board of Directors. Each Committee member shall satisfy the independence, financial literacy and experience requirements of the Securities and Exchange Commission ("SEC"), the New York Stock Exchange and other regulatory bodies. The Board of Directors shall determine that each member is free of any relationship with the Company which, in the opinion of the Board of Directors, may interfere with the exercise of independent judgment. At least one member of the Committee shall have accounting or financial management expertise, as required by the rules and regulations of the Exchange.

#### **III. Meetings**

The Audit Committee shall meet as often as necessary to fulfill its responsibilities, but not less than quarterly. At least quarterly, the Committee shall hold separate, private meetings with the Company's Chief Financial Officer and Controller, and the Company's IRPAF. At least twice each year, the Committee shall meet with representatives of the internal audit firm. Each such person shall have free and direct access to the Committee and any of its members.

The Committee shall meet only if a quorum is present. The presence of a majority of the members will constitute a quorum.

The Committee shall maintain a one-year schedule of future meeting dates including a preliminary agenda for each meeting. Final meeting agendas shall be drafted by the Committee Chair in consultation with the Chief Financial Officer, the IRPAF and the internal auditor.

Following each Committee meeting, the Chair shall report to the Board of Directors the Committee's activities, concerns, conclusions and recommendations, reviewing with the Board the broad scope of issues that may come before the Committee including the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's IRPAF, and performance of the internal audit function.

#### **IV. Authority of Committee**

In discharging its oversight role and responsibilities, the Committee is empowered to investigate any matter brought to its attention or assigned by the Board of Directors. The Committee may require Company personnel to assist in any such investigations, and it is empowered to engage and retain outside legal counsel and other experts to assist in such investigations or other matters as it deems necessary.

#### **V. Responsibilities of the Audit Committee**

The Company's management is responsible for preparing the Company's financial statements and the IRPAF is responsible for auditing those financial statements. In fulfilling these responsibilities, the IRPAF is ultimately accountable to the Audit Committee, and management is ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee provides an oversight function. This Charter should not be construed to imply that the Audit Committee is required to provide or does provide any assurance or certification as to the Company's financial statements or as to its compliance with laws, rules or regulations. In order to fulfill its oversight responsibility, the Audit Committee must be capable of conducting free and open discussions with management, internal and the IRPAF, employees and others regarding the quality of the financial statements and the system of internal controls.

To fulfill its responsibilities, the Audit Committee shall:

##### With Respect to the Independent Registered Public Accounting Firm:

1. Be directly responsible for the appointment, compensation and oversight of the IRPAF, subject to stockholder ratification.
2. Review and evaluate the IRPAF's performance. The evaluation should include a performance review of the IRPAF's lead partner. In making its evaluation, the Committee should take into account the opinions of management.
3. Ensure the IRPAF independence by:
  - (i) requiring that the IRPAF submit annually to the Audit Committee a formal written statement delineating all relationships between the IRPAF and the Company;
  - (ii) actively engaging in a dialogue with the IRPAF with respect to all relationships or services that may impact their objectivity and independence, including the matters required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees"; and
  - (iii) setting clear policies defining the circumstances under which the Company is permitted to hire former employees of the IRPAF.
4. Review and approve in advance any non-audit services and related fees proposed to be undertaken by the IRPAF on behalf of the Company;

5. Annually review the IRPAF's proposed scope and audit plan, and discuss staffing and timing of the audit and related matters.
6. Review, at least annually, the IRPAF's report on their internal quality controls and any material issues and the steps taken and to be taken to deal with issues raised by the IRPAF's internal quality review, peer review, or inquiry by governmental or professional organizations, at any time within the past five years.
7. Obtain from management, review and approve a description of issues and responses whenever a second opinion is proposed to be sought by management from another outside accounting firm.
8. Require the IRPAF to rotate the lead audit partner assigned to the Company's audit and the second partner responsible for reviewing the audit at least every five years.
9. Periodically review rotating the IRPAF to be selected as the Company's IRPAF. The audit committee should present its conclusions with respect to the IRPAF to the Board of Directors.

With Respect to Financial Statements

10. Review accounting principles and financial statement presentations, including:
  - (i) any changes in the Company's selection or application of significant accounting principles;
  - (ii) any major issues as to the adequacy of the Company's internal controls and any special audit steps adopted by the independent auditors in light of material control deficiencies;
  - (iii) analyses prepared by management and/or the IRPAF setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative Generally Accepted Accounting Principles ("GAAP") on the financial statements; and
  - (iv) the effect of regulatory and accounting initiatives, as well as off-balance sheet arrangements, on the Company's financial statements for compliance with applicable accounting and disclosure rules.
11. Review with the Company's IRPAF:
  - (i) all critical accounting policies and practices to be used;
  - (ii) all alternative treatments of financial information within GAAP that have been discussed with Company management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the IRPAF; and
  - (iii) other material written communications between the IRPAF and Company's management, such as any management letter or schedule of unadjusted accounting differences.

12. Inquire of the IRPAF at a post-audit, pre-issuance review of the Company's annual financial statements, the IRPAF's opinion thereon, and any problems, difficulties or disagreements with management encountered by the IRPAF during the course of the audit, and management's response, including reviewing with the IRPAF:

- (i) any restrictions on the scope of the IRPAF's activities or access to requested information;
- (ii) any accounting adjustments, whether material or not, that were noted or proposed by the IRPAF but were not recorded by the Company and assess the reason the adjustments were not recorded;
- (iii) any communications between the IRPAF and the IRPAF's national office respecting auditing or accounting issues presented by the engagement; and
- (iv) any "management" or "internal control" letter issued, or proposed to be issued, by the IRPAF to the Company.

13. Discuss with the Company's financial management and with the IRPAF the quarterly and annual financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," prior to any public release or announcement or submission to a regulatory agency.

14. Review with management each Form 10-K and 10-Q report required to be submitted to the SEC, its disclosures to the Committee under Section 302 of the Sarbanes-Oxley Act ("Act") and the contents of the Chief Executive Officer and the Chief Financial Officer certifications required to be filed under Section 302 and 906 of the Act. Each quarter, review with management the status on significant deficiencies or material weaknesses as reported under section 404 of the Act. Annually, review management's and the outside auditor's report on internal controls as required under section 404 of the Act and discuss relevant issues as appropriate.

15. Discuss with the IRPAF the matters required to be discussed by relevant auditing standards, including the quality, and not just the acceptability, of the accounting principles and underlying estimates used in the preparation of the financial statements.

16. Recommend to the Board of Directors that the financial statements be included in the Company's annual report to the SEC on Form 10-K, if the Committee finds the financial statements acceptable; such recommendation shall be reported in the Audit Committee report included in the proxy statement.

17. Review and discuss quarterly earnings releases with the Company's financial management and the IRPAF prior to issuance.

18. Review the Company's policy for financial information and earnings guidance provided to analysts and rating agencies. Review, prior to publication or filing of other Company financial information, such as news releases, required regulatory filings and guidance provided to financial analysts, that include financial information, as the Committee deems desirable.

With Respect to Internal Auditing and Internal Controls

19. Appoint, in consultation with management, the Company's internal audit firm that shall report to and be responsible to the Committee.

20. Review and approve the annual internal audit plan including internal audit firm compensation.

21. Annually review the quality of internal accounting and financial control, internal auditor reports and opinions and any recommendations the auditor may have for improving or changing the Company's internal controls, as well as management's response to the internal auditor's recommendations.

22. Discuss policies with respect to the Company's risk assessment and risk management, and review the Company's major financial risk exposures and the steps management has taken and proposes to take to monitor and control such exposures.

#### **VI. Annual Performance Evaluation and Other Matters**

23. The Committee shall conduct an annual performance evaluation that considers matters related to its responsibilities in dealing with the IRPAF, financial statements, internal audit function and internal control.

24. This Charter will be reviewed at least annually with revisions the Committee determines as necessary proposed to the Board of Directors.

25. The Committee will prepare a report to the stockholders for inclusion in each proxy statement, as required by SEC regulations. The Audit Committee Charter will be published each year in the proxy statement and be available through the Company's website. The report will include the name(s) of the Committee members who qualify as financial experts as defined by the SEC.

26. Annually the Committee will review and approve the Company's code of business conduct and ethics for directors and executive officers, including the code of conduct for the CEO and financial executives. The Committee will approve any waivers in the codes and ascertain that changes and waivers are disclosed in a Form 8-K filing with the SEC.

27. The Committee will maintain procedures whereby an employee may submit, on a confidential and anonymous basis, complaints regarding questionable accounting, internal accounting controls, or auditing matters. There shall also be procedures for the Committee, at its Chair's direction, to investigate these matters.

Board approved 2/23/05