

## **CALIFORNIA WATER SERVICE GROUP CORPORATE GOVERNANCE GUIDELINES**

The Board of Directors of California Water Service Group (the “Company”) has adopted the Corporate Governance Guidelines set forth below as a framework for the governance of the Company. The Nominating/Corporate Governance Committee reviews the Guidelines annually and recommends changes to the Board of Directors as appropriate.

### **ROLE AND COMPOSITION OF THE BOARD OF DIRECTORS**

1. ***Role of the Board.*** The Board of Directors, elected by the Company’s stockholders, oversees the management of the Company and its business. The Board selects the senior management team that is responsible for operating the Company’s business, and monitors the performance of senior management. Consistent with the oversight function of the Board, the Board’s core responsibilities include:
  - Assessment of the performance of the Chief Executive Officer (“CEO”) and other senior management and setting their compensation;
  - Succession planning for the CEO and senior management;
  - Review of the Company’s strategies, implementation and results;
  - Oversight of the integrity of the Company’s financial statements and the Company’s financial reporting process;
  - Oversight of the Company’s processes for assessing and managing risk;
  - Oversight of legal and regulatory compliance;
  - Nomination of candidates for director and appointment of committee members; and
  - Provision of advice and counsel to management regarding significant issues facing the Company and review and approval of significant corporate actions.
  
2. ***Size.*** Under the Bylaws, the size of the Board ranges between nine and eleven, as determined by the Board of Directors. Currently, the Board has ten members. Directors of the Company are elected by stockholders for a one-year term.
  
3. ***Director Independence.*** A substantial majority of the Board is made up of independent directors. To be considered an “independent director,” a director must meet the New York Stock Exchange (“NYSE”) standards of independence, as determined by the Board. The Board has adopted the standards set forth in Attachment A to assist it in assessing the independence of directors. The Board makes an affirmative determination regarding the

independence of each director annually, based upon the recommendation of the Nominating/Corporate Governance Committee.

4. **Board Membership Criteria.** The Nominating/Corporate Governance Committee considers and makes recommendations to the Board regarding the size, structure, composition and functioning of the Board.

The Nominating/Corporate Governance Committee is responsible for establishing processes and procedures for the selection and nomination of directors, and for developing and recommending Board membership criteria to the Board for approval, and periodically reviewing these criteria. The Board's criteria include leadership in a particular field, broad experience and sound business judgment, expertise in areas of importance to the Company, ability to work in a collegial board environment, the highest personal and professional ethics and integrity, ability to devote required time to carrying out director responsibilities, ability and willingness to contribute special competencies to Board and committee activities, freedom from conflicts of interest that would interfere with serving and acting in the best interests of the Company and its stockholders, and achievement of prominence in a career.

The Nominating/Corporate Governance Committee reviews the qualifications of director candidates in light of these criteria and recommends the Company's candidates to the Board for election by the stockholders at the Annual Meeting.

5. **Board Leadership.** The positions of Chairman of the Board and CEO are separate. An independent director has been designated as lead director.

The responsibilities of the Chairman of the Board include: (a) presiding at meetings of the Board and developing agendas for Board meetings, working with the CEO and in coordination the lead director as necessary; (b) presiding at the Company's Annual Meeting of the stockholders and developing agendas for the Annual Meeting with the CEO; (c) consulting with the Nominating/Corporate Governance Committee about committee size, structure, composition and functioning and attending committee meetings in an ex officio capacity; (d) providing counsel to the CEO and coordinating communications between the Board and CEO as necessary; (e) chairing the Executive Committee; and (f) providing input into the development of the annual report. The Chairman of the Board shall also have such other duties as may be assigned by the Board.

The lead director presides over executive sessions of the non-management and independent directors and has the authority to call executive sessions. The responsibilities of the lead director also include: (a) presiding at meetings of the Board in the absence of the Chairman of the Board; (b) approving Board meeting agendas and schedules; (c) approving information sent to the Board; (d) serving as liaison between the Chairman of the Board and the independent directors; and (e) being available for consultation and communication with major stockholders upon request.

6. **Change in Principal Occupation.** When a director's principal occupation or business association changes substantially during his or her tenure as a director, that director will

tender his or her resignation for consideration by the Board, which will determine the action, if any, to be taken with respect to the resignation.

7. ***Other Directorships.*** The Board has adopted a policy that directors should not serve as a director of more than five public companies, the Company being one of the five. Service on the boards of subsidiary companies, non-profit organizations and non-public for-profit organizations is not included in this calculation. Moreover, if a director sits on several mutual fund boards within the same fund family, it will count as one board for purposes of this calculation. Directors must advise the Chair of the Nominating/Corporate Governance Committee in advance of accepting an invitation to serve on another public company board.
8. ***Retirement Age.*** A director must retire no later than the Annual Meeting that follows the date of the director's 75th birthday. A management director must retire as an employee no later than the Annual Meeting that follows the date of the director's 70th birthday but may remain on the Board at the discretion of the Board.
9. ***Director Resignation Policy.*** The Board has amended the Company's Bylaws to provide for majority voting in the election of directors. In uncontested elections, directors are elected by a majority of the votes cast, which means that the number of shares voted "for" a director must exceed the number of shares voted "against" that director. The Nominating/Corporate Governance Committee has established procedures for any director who is not elected to tender his or her resignation. The Nominating/Corporate Governance Committee will recommend to the Board whether to accept or reject the resignation offer, or whether other action should be taken. In determining whether to recommend that the Board accept any resignation offer, the Nominating/Corporate Governance Committee will be entitled to consider all factors believed relevant by the Committee's members.

The Board will act on the Nominating/Corporate Governance Committee's recommendation within ninety (90) days following certification of the election results. In deciding whether to accept the resignation offer, the Board will consider the factors considered by the Nominating/Corporate Governance Committee and any additional information and factors that the Board believes to be relevant. Thereafter, the Board will promptly publicly disclose its decision regarding the director's resignation offer (including the reason(s) for rejecting the resignation offer, if applicable). If the Board accepts a director's resignation offer pursuant to this process, the Nominating/Corporate Governance Committee will recommend to the Board and the Board will thereafter determine whether to fill such vacancy or reduce the size of the Board. Any director who tenders his or her resignation pursuant to this provision will not participate in the proceedings of either the Nominating/Corporate Governance Committee or the Board with respect to his or her own resignation offer.

## **FUNCTIONING OF THE BOARD OF DIRECTORS**

1. ***Meetings and Agendas.*** Directors are expected to attend meetings of the Board of Directors and the committees on which they serve. The Chairman, working with the CEO

and in coordination with the lead director as necessary, establishes the agenda for each Board meeting. Directors are encouraged to suggest the inclusion of items on the agenda. Directors are also free to raise subjects at a Board meeting that are not on the agenda for that meeting.

2. ***Executive Sessions.*** The non-management directors meet at least four times each year without members of management present and may meet as needed at other times as deemed appropriate. In addition, the independent directors meet in executive session at least once each year. The lead director presides over executive sessions.
3. ***Attendance at Annual Meeting of Stockholders.*** Directors are expected to attend the Company's Annual Meeting of the stockholders except in the event of an emergency.
4. ***Board Materials.*** Materials related to agenda items are provided to directors sufficiently in advance of Board meetings to allow directors to review and prepare for discussion of the items at the meeting. In some cases, due to timing or the sensitive nature of an issue, materials are presented only at the Board meeting.
5. ***Director Access to Management.*** The Board has access to members of management on a regular basis at Board and committee meetings. Between meetings, directors have full access to management and to other employees of the Company.
6. ***Director Access to Outside Advisers.*** The Board of Directors has the authority to engage outside advisors as needed to assist it in performing its duties. Each of the Audit Committee, Executive Committee, Finance Committee, Nominating/Corporate Governance Committee, and Organization and Compensation Committee has similar authority to engage outside advisors as it determines appropriate to assist it in the performance of its functions.
7. ***Director Orientation and Continued Education.*** Each new director participates in an orientation about the Company, the Board of Directors, and the duties of directors. Directors receive continuing education through presentations about the Company and relevant issues that arise in the Company's business. In addition, the Board encourages directors to participate in education programs offered by outside organizations to assist them in performing their responsibilities as directors.

## COMMITTEES

1. ***Structure and Operation of the Committees.*** The Board of Directors has the following five standing committees: Audit, Executive, Finance, Organization and Compensation, and Nominating/Corporate Governance. All members of the Audit, Finance, Organization and Compensation, and Nominating/Corporate Governance Committees are independent. In addition, directors who serve on the Audit Committee must meet additional independence criteria applicable to audit committee members under the NYSE listing standards.
2. ***Assignment of Committee Members.*** The Nominating/Corporate Governance Committee, in consultation with the Chairman of the Board, makes recommendations to the Board regarding committee size, structure, composition and function. Committee members and chairs are recommended to the Board by the Nominating/Corporate Governance Committee and appointed by the full Board.
3. ***Committee Responsibilities.*** Each standing committee operates under a written charter that sets forth the purposes and responsibilities of the committee as well as qualifications for committee membership. Each standing committee assesses the adequacy of its charter annually and recommends changes to the Board as appropriate. All committees report regularly to the full Board with respect to their activities.
4. ***Committee Meetings and Agendas.*** The chair of each committee, working with the Chairman of the Board, determines the frequency, length and agenda of the committee's meetings. Directors are encouraged to provide input on committee meeting agendas. Materials related to agenda items are provided to committee members sufficiently in advance of meetings to allow the members to review and prepare for discussion of the items at the meeting.

## ANNUAL PERFORMANCE EVALUATIONS

1. ***Board and Committee Evaluations.*** The Board of Directors annually reviews its performance through self-evaluation. The Nominating/Corporate Governance Committee oversees the evaluation process and the results are shared with the full Board. The Audit, Finance, Organization and Compensation, and Nominating/Corporate Governance Committees also conduct annual self-evaluations under the oversight of the Nominating/Corporate Governance Committee.

## MANAGEMENT EVALUATION, DEVELOPMENT, AND SUCCESSION PLANNING

1. ***Management Development and Succession Planning.*** The Board of Directors, with recommendations from the Organization and Compensation Committee, approves and annually evaluates a succession plan for the CEO. At least annually, the Organization and Compensation Committee reviews with the Board succession planning and management development, including recommendations and evaluations of potential successors to fill this position. The succession planning process includes consideration of candidates who could assume the position of CEO in the event the CEO unexpectedly

becomes unable to perform the duties of this position. This process enables the Board to maintain a long-term and continuing program for effective management development and succession as well as emergency succession plans.

2. ***Formal Evaluation of the CEO.*** The Organization and Compensation Committee is responsible for setting performance goals for the CEO, evaluating the CEO's performance against those goals, and recommending the CEO's compensation to the independent directors for approval. The results of the evaluation are shared with the CEO and used by the Organization and Compensation Committee in considering the CEO's compensation, which is approved by the independent directors.

## **DIRECTOR COMPENSATION; STOCK OWNERSHIP GUIDELINES FOR DIRECTORS**

1. ***Director Compensation.*** The Nominating/Corporate Governance Committee is responsible for reviewing director compensation and recommending changes to the Board of Directors as appropriate.
2. ***Director Stock Ownership Guidelines.*** The Board of Directors strongly encourages stock ownership by directors. Beneficial ownership of an aggregate amount of shares having a value of four times the amount of the annual director retainer is desirable. Directors are strongly encouraged to achieve this level of ownership by the end of four years from the date of their election to the Board.
3. ***Prohibition on Stock Option Repricing Absent Shareholder Approval.*** In accordance with the NYSE listing standards, the Company will not re-price stock options without first obtaining shareholder approval.

## **CODES OF CONDUCT**

1. ***Director Code of Business Conduct and Ethics.*** The Board of Directors has adopted a Code of Business Conduct and Ethics applicable to directors of the Company.
2. ***Employee Codes of Business Conduct and Ethics.*** The Board of Directors has adopted codes of conduct and ethics applicable to all employees of the Company.

## Attachment A

An “independent” director is a director whom the Board of Directors has determined has no material relationship (whether commercial, industrial, banking, consulting, accounting, legal, charitable, familial or otherwise) with California Water Service Group or any of its consolidated subsidiaries (collectively, the “Company”), either directly, or as a partner, shareholder or officer of an organization that has a relationship with the Corporation. For purposes of this definition, the Board has determined that a director is not independent if:

1. The director is, or has been within the last three years, an employee of the Company, or an immediate family member of the director is, or has been within the last three years, an executive officer of the Company.
2. The director has received, or has an immediate family member who has received, during any 12-month period during the last three years, more than \$120,000 in direct compensation from the Company (other than Board and committee fees, and pension or other forms of deferred compensation for prior service). Compensation received by an immediate family member for service as an employee (other than an executive officer) of the Company is not considered for purposes of this standard.
3. (a) The director is a current partner or employee of the Company’s internal or external auditor; (b) the director has an immediate family member who is a current partner of the Company’s internal or external auditor; (c) the director has an immediate family member who is a current employee of the Company’s internal or external auditor and who personally works on the Company’s audit; or (d) the director, or an immediate family member of the director, was within the last three years a partner or employee of the Company’s internal or external auditor and personally worked on the Company’s audit within that time.
4. The director, or an immediate family member of the director, is, or has been within the last three years, employed as an executive officer of another company where any of the Company’s present executive officers serves or served at the same time on that company’s compensation committee.
5. The director is a current employee, or an immediate family member of the director is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount that, in any of the last three fiscal years, exceeded the greater of \$1 million or 2% of the other company’s consolidated gross revenues; or
6. The director, or the director’s spouse, is an executive officer of a non-profit organization to which the Company makes, or in the past three years has made, payments that, in any single fiscal year, exceeded the greater of \$1 million or 2% of the non-profit organization’s consolidated gross revenues.

In addition, the Board has determined that none of the following relationships, by itself, is a material relationship that would impair a director's independence:

1. Being a residential customer of the Company.
2. Being a current executive officer or employee of, or being otherwise affiliated with, a commercial customer from which the Company has received payments that, in any of the last three fiscal years, did not exceed the greater of 1% of the Company's consolidated gross revenues or \$500,000;
3. Being a current executive officer or employee of, or having a 5% or greater ownership or similar financial interest in, a supplier or vendor that has received payments from the Company that, in any of the last three fiscal years, did not exceed the lesser of 1% of the Company's consolidated gross revenues or \$500,000; or
4. Being a director of any subsidiaries of California Water Service Group.

An "immediate family" member includes a director's spouse, parents, children, siblings, mother and father-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than a domestic employee) who shares the director's home.

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