

## **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 seven and eleven, as determined by the Board of Directors. Currently, the Board has nine 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 Board periodically reviews its leadership structure to evaluate whether the structure remains appropriate for the Company. Currently, the positions of Chairman of the Board and CEO are separate. In addition, the independent directors have designated an independent director to serve as lead director for a period of at least one year. 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 submit an offer to resign for consideration by the Board, which will determine the action, if any, to be taken with respect to the resignation offer.
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. Directors who are serving as executive officers or employees of public companies may not serve on the boards of more than three public companies, the Company being one of these. Service on the boards of subsidiary companies with no publicly traded stock, 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. Any director who is not elected by a majority of the votes cast is expected to tender his or her resignation offer to the Nominating/Corporate Governance Committee. 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 establishes the agenda for each Board meeting with the approval of the lead director. 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, Finance and Risk Management 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 four standing committees: Audit, Finance and Risk Management, Organization and Compensation, and Nominating/Corporate Governance. All members of these committees are independent. In addition, directors who serve on the Audit Committee and the Organization and Compensation Committee must meet any additional independence criteria applicable to audit committee members and compensation committee members, respectively, 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 and Risk Management, 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**

1. ***Director Compensation.*** The Nominating/Corporate Governance Committee is responsible for reviewing director compensation and recommending changes to the Board of Directors as appropriate.

## **STOCK OWNERSHIP REQUIREMENTS FOR DIRECTORS AND EXECUTIVES**

1. ***Purpose.*** In order to align the interests of the Company's directors and executives with the interests of stockholders, the Board has adopted stock ownership requirements for directors and executive officers.
2. ***Directors.*** Directors are required to beneficially own an aggregate number of shares having a value of at least five times the amount of such director's annual retainer. Directors must achieve this level of ownership by the end of five years after the date of their election to the Board or the adoption of this requirement, whichever is later. Directors must retain 75% of the net after-tax shares from equity awards until the ownership requirement is achieved.
3. ***Executive Officers.*** Executive officers are required to beneficially own an aggregate number of shares having a value as follows: (a) Chief Executive Officer—three times annual base salary; (b) vice presidents—one and one-half times annual base salary; and (c) all other executive officers—one time annual base salary. Executive officers must retain 50% of the net after-tax shares from equity awards until the ownership requirement is achieved.

## **HEDGING AND PLEDGING**

1. ***Prohibition on Hedging and Pledging.*** Directors and executive officers are prohibited from: (a) hedging their ownership of Company stock, including trading in options, puts, calls, or other derivative instruments related to Company stock or debt; and (b) pledging their ownership of Company stock.

## **STOCK OPTION REPRICING**

1. ***Prohibition on Stock Option Repricing Absent Stockholder Approval.*** In accordance with the NYSE listing standards, the Company will not re-price stock options without first obtaining stockholder approval.

## **STOCKHOLDER ENGAGEMENT**

1. ***Philosophy.*** Stockholders are important participants in the governance of the Company. The Board oversees the management of the Company and its business on behalf of the Company's stockholders, so building relationships with stockholders and understanding their views is a critical part of the Company's corporate governance. Furthermore, stockholders benefit from meaningful

information about the Company in order to make voting decisions based on consideration of what is in the best interests of the Company. With these principles in mind, the Company welcomes feedback from its stockholders and endeavors to create an environment that fosters open communication and constructive dialogue with its stockholders.

2. ***Roles of the Board and Management.*** The Board and management both play a role in stockholder engagement. To enable the Company to speak with a single voice, as a general matter, senior management serves as the primary spokesperson for the Company and is responsible for communicating with various constituencies, including stockholders, on behalf of the Company. Directors may participate in discussions with stockholders and other constituencies on issues where Board-level involvement is appropriate. In addition, the Board oversees the Company's stockholder engagement efforts. The Board performs this responsibility in part through the Organization and Compensation Committee, which oversees stockholder engagement on the subject of executive compensation, as set forth in the Committee's charter.
3. ***Communications with the Board.*** Stockholders are welcome to contact the Company to share their views and concerns. Stockholders may address inquiries to any of the Company's directors, to the lead director (who chairs the Board's executive sessions), or to the full Board, by writing to them in care of the Corporate Secretary, California Water Service Group, 1720 North First Street, San Jose, California 95112-4598 or by email at stockholder communication @calwater.com. All such communications are sent directly to the intended recipient.

## **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 Business Code of Conduct.*** The Board of Directors has adopted a Business Code of Conduct applicable to all officers and 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 Company. 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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