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December 2, 2010
Gabelli & Company, Inc.

Water Utility Stock Update

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-Please Refer To Important Disclosures In This Report-

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Water Utility Outlook

Water utility stocks have provided investors with an 8% total return year-to-date, which includes reinvested dividends. The performance compares to a roughly 4% return for the S&P Utilities Index and a 10% return for the S&P Composite. The Midwestern and eastern utilities experienced strong third quarter earnings results driven by more favorable weather, ongoing rate relief and modest economic improvement. Consolidation has continued with the private equity acquisition of Southwest Water consummated on September 13, 2010 and the city of Nashua finally coming to terms with an agreement to purchase Pennichuck Water on November 15, 2010. Acquisition prices represented 268% and 241% of equity book values, respectively. Despite weakened municipal budgets, we continue to characterize the long-term trend toward the consolidation and privatization of US water systems as slow-moving. Nonetheless, with over 55,000 water systems in the U.S., 50,000 of which serve costumer bases under 3,000, and 80% of the population served by municipal systems, we expect the trend to continue.

Table 1 **Water Utility Comparable Statistics**

		Market Data					Valuation Data								
Company	Symbol	Price	Px Chg. 2010	Market Cap. (mil.)	Avg Daily Volume (000)	Inst. Holdings	12-Mos. Price Range High	Low	P/E 2010E	P/E 2011P	P/E 2012P	EV (000)	EBITDA 2010	EV/ EBITDA	Price/ Book
		$	%	$	(000)	%	$	$	X	X	X	$	$	X	X
American States Water	AWR	37.26	5	694	70	62	39.61	31.20	19.1	17.8	16.6	1,044	122	8.6	1.96
American Water Works	AWK	24.78	11	4,333	1,030	85	24.93	19.41	16.5	15.5	14.1	9,969	917	10.9	1.50
Aqua America	WTR	21.83	25	3,002	670	44	21.97	16.32	24.2	22.3	20.3	4,512	391	11.6	2.63
Artesian Water Resources	ARTNA	18.73	2	125	10	30	19.59	16.43	18.0	17.0	16.4	258	25	10.3	1.33
California Water Service Gp.	CWT	37.58	2	783	90	44	39.70	33.81	19.8	17.5	16.7	1,217	133	9.1	1.80
Connecticut Water Service	CTWS	25.02	1	217	20	31	26.44	20.00	21.7	21.8	21.2	359	24	15.0	1.93
Consolidated Water Co.	CWCO	8.70	(39)	127	90	51	15.24	8.09	19.8	19.8	18.1	85	12	7.2	1.00
Middlesex Water	MSEX	17.87	1	278	30	38	18.70	14.74	18.1	18.4	17.0	432	36	12.1	1.61
Pennichuck Water	PNNW	27.50	30	128	30	50	28.39	19.00	28.9	25.5	23.7	188	15	12.4	2.31
SJW Corp.	SJW	25.55	13	474	40	46	28.24	21.02	25.3	24.5	22.1	686	71	9.7	1.84
York Water	YORW	16.22	12	206	20	21	16.76	12.83	23.2	21.7	21.1	287	25	11.6	2.30
Average			**6**	**942**		**46**			**21.3**	**20.2**	**18.8**			**10.8**	**1.84**
Median			**5**	**278**		**44**			**19.8**	**19.8**	**18.1**			**10.9**	**1.84**

		Financial Performance						Dividends					Balance Sheet		
Company	Symbol	EPS 2008A	EPS 2009A	EPS 2010E	EPS 2011P	EPS 2012P	ROE (TTM)	Current Annual Rate	Current Yield	Payout 2010 EPS	Div. as % of Book	2010 Div. Growth Rate	Book Value P/S	Equity/ Capital 10-Sep	S&P Credit Rating
		$	$	$	$	$	%	$	%	%	%	%	$	%	
American States Water	AWR	1.47	1.62	1.95	2.10	2.25	7.4	1.04	2.8	50	5.5	2.0	18.99	55	A+
American Water Works	AWK	1.10	1.25	1.50	1.60	1.75	6.4	0.88	3.6	55	5.3	6.0	16.50	34	BBB+
Aqua America	WTR	0.73	0.77	0.90	0.98	1.08	9.9	0.62	2.8	63	7.5	10.7	8.29	43	A+ (a)
Artesian Water Resources	ARTNA	0.86	0.97	1.04	1.10	1.14	8.4	0.76	4.0	69	5.4	3.7	14.10	41	-
California Water Service Gp.	CWT	1.92	1.95	1.90	2.15	2.25	9.0	1.19	3.2	55	5.7	0.8	20.93	50	A+
Connecticut Water Service	CTWS	1.11	1.19	1.15	1.15	1.18	9.3	0.93	3.7	81	7.2	2.2	13.00	44	A
Consolidated Water Co.	CWCO	0.50	0.74	0.44	0.44	0.48	4.6	0.30	3.4	68	3.5	7.1	8.69	87	-
Middlesex Water	MSEX	0.89	0.72	0.99	0.97	1.05	7.8	0.73	4.1	75	6.6	2.5	11.13	52	A-
Pennichuck Water	PNNW	0.56	0.55	0.95	1.08	1.16	6.5	0.74	2.7	69	6.2	4.2	11.88	48	-
SJW Corp.	SJW	1.15	0.81	1.01	1.04	1.16	7.3	0.68	2.7	65	4.9	1.5	13.91	46	-
York Water	YORW	0.57	0.64	0.70	0.75	0.77	9.8	0.52	3.2	70	7.4	2.7	7.04	53	A-
Average							**7.9**		**3.3**	**65**	**5.9**	**4.0**		**50**	
Median							**7.8**		**3.2**	**68**	**5.7**	**2.7**		**48**	

Figures exclude items Gabelli & Company, Inc. believes to be non-recurring.
Sources: Gabelli & Company, Inc., Thomson, Yahoo! Finance, and company filings.
(a) Subsidiary ratings

The water utility group's 2011 price to earnings multiple is 19.8X and its median prices to book value is 184%, which compares to regulated electric utility multiples of 13.5X and 145% of book value. Water utilities have traded at premium valuations to regulated electric and gas utilities over the past fifteen years due primarily to takeovers at multiples averaging roughly 25-30X forward earnings and 250-300% of book value. Larger utilities and private equity groups are willing to pay these multiples given the longer-term earnings growth potential of the group and the relatively low-risk of regulated water utility earnings streams. In addition, given that there are only 10-15 private and/or publicly-traded water utilities of significant size to acquire as a vehicle to participate in the space, scarcity premiums are required.

We recommend investors purchase selected domestic water utility stocks based on their low-risk and long-term earnings and dividend growth potential. The group currently offers an average 3.3% current return with average annual 2009-2012 earnings per share growth of 8%. Near-term earnings growth is primarily driven by constructive regulatory treatment of investment in infrastructure. The overall regulatory environment has improved over the last few years as decoupling mechanisms and infrastructure surcharges have been implemented or are being considered in many jurisdictions. Over the long-term, we expect rate base growth to be enhanced by the consolidation of small water systems and the privatization of municipal water and wastewater systems.

Table 2 **Select Water Utility Acquisitions**

Acquisition (Acquirer-Acquired)	Date Announced	Equity Value ($ mil.)	Trailing 12-Mos. P/E (X)	Book Value Premium (%)	Dollar Per Customer ($)
NiSource (NI) - Indianapolis Water Company	12/19/1996	$288	25.7	240	$,1719
Philadelphia Suburban (PSC) - Consumers Water	6/29/1998	270	21.9	252	2,045
American Water Works (AWK) - National Enterprises	10/13/1998	475	25.9	240	NA
California Water Svc. (CWT) - Dominguez (DOMZ)	3/22/1999	53	36.5	309	NA
Kelda Group - Aquarion (WTR)	6/1/1999	444	25.5	281	4,096
Suez Lyonnaise (SLEDF) - United Water (UWR)	8/23/1999	1,360	30.3	292	4,154
American Water Works (AWK) - CZN's water assets	10/17/1999	NA	27.5	265	2,738
American Water Works (AWK) - SJW Corp. (SJW)	10/29/1999	390	27.1	289	NA
Thames Water PLC - E'town (ETW)	11/22/1999	607	26.7	256	4,732
Nuon - Utilities Inc.	3/28/2001	400	NA	NA	1,702
RWE - American Water Works (AWK)	9/17/2001	4,600	26.3	270	1,840
Philadelphia Suburban (PSC) - AquaSource (DQE)	7/30/2002	195	NA	NA	1,500
Aqua America (WTR) - Heater Utilities (ALLETE)	11/21/2003	48	NA	NA	1,407
Aqua America - Florida Water Service (ALLETE)	4/23/2004	14	NA	NA	1,382
Southwest Water (SWWC) - Tecon Water Holdings	5/3/2004	45	NA	NA	2,520
AIG Highstar - Utilities, Inc. (NUON)	5/18/2005	NA	NA	NA	NA
Macquarie - Aquarion (Kelda)	2/25/2006	625	19.7	223	4,076
JP Morgan - Southwest Water Company (SWWC)	3/3/2010	303	44.0	268	NMF
City of Nashua - Pennichuck (PNNW)	11/15/2010	135	30.0	241	3,756
	Average		**28.2**	**264**	**$,2691**

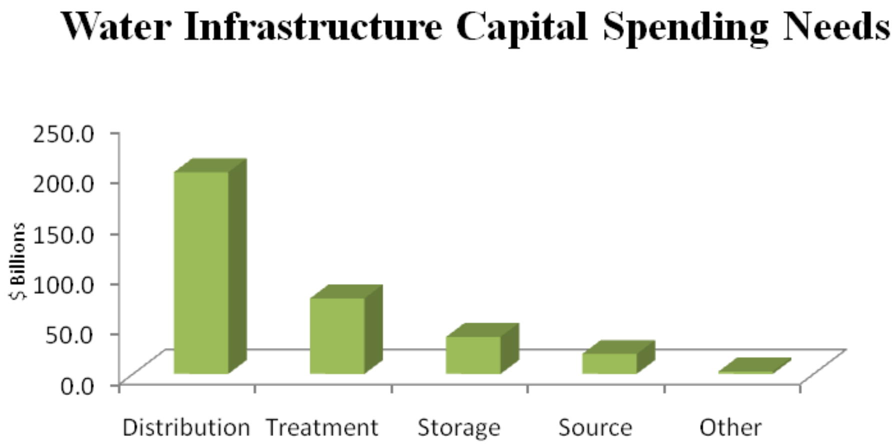
Source: Company documents, SEC filings and Gabelli & Company, Inc. estimates

We believe water utilities warrant among the lower risk premiums of any sector in the market based on the following features: a monopoly service territory, high barriers to entry, no alternative product, minimal commodity price exposure, price inelasticity, public and regulatory support for price increases, regulated rates of return and strong financial conditions. The high quality financial condition is evidenced by superior credit ratings and solid balance sheets. As can be seen in Table 1, most of the water utilities credit ratings are ‘A’ by Standard and Poor’s with AWK rated ‘BBB+’.

We suggest water utility investors exercise patience. Economic logic reasons that water/wastewater infrastructure restructuring offers significant value-creation opportunity and long-term growth potential, but the process could take decades to play out. The inefficiency of the multi-hundred-billion dollar sector has been largely neglected primarily due to comparatively low residential water utility bills. The water utility business is the most capital intensive of all the utility businesses, and near-term capital expenditures are primarily to replace and upgrade an aging distribution network, comply with increasingly stringent environmental standards and to build and maintain treatment plants and storage facilities. We believe that the political and public environment is growing ever more amenable toward allowing substantial capital investment in water/wastewater infrastructure and that consolidation and privatization represents the necessary alternative for smaller and municipally-owned system to finance investment required for quality compliance. Notably, the privatization of the water and wastewater systems of US military bases also continues, with American Water Works and American States Water winning numerous contracts over the past several years. This long-term process provides the opportunity for solid earnings growth for the foreseeable future.

Potential opportunities and challenges are evident in the high ownership turnover the sector has experienced over the past twenty years. Large global infrastructure funds, private equity players and leading industrial companies have invested heavily in the sector. This follows considerable ownership changes in the mid-to-late 1990s when electric utilities, European multi-utilities and larger, well-capitalized water utilities bought and sold numerous water utilities as aspirations of consolidating and privatizing the U.S landscape met with varying degrees of success. Going forward, we believe the water and wastewater industry is ripe for new rounds of consolidation and privatization as the sector is in the early stages of an extended period of restructuring. We believe the restructuring of the $500 billion sector has the potential for significant value-creation.

Exhibit 1

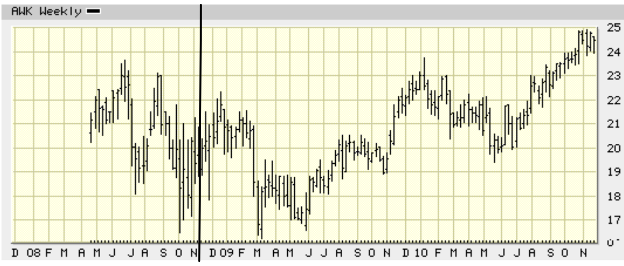


Source: EPA 2007

We contend that a "handful" of publicly-traded water utilities possess strategically positioned assets, outstanding operating track records and reputations, managerial and professional talent and are poised to capitalize on the eventual restructuring of the industry. Our favorite publicly-traded water utilities are Aqua America (WTR-$21.83- Buy), American Water Works (AWK-$24.78-Buy) and SJW Corp. (SJW-$25.00-Not Rated). Other well-positioned companies that we are highlighting in the following text include American States Water (AWR-$37.26-Hold), and California Water Service Group (CWT-$37.58-Hold).

We are initiating coverage of American States Water with a Hold recommendation.

American Water Works Price Chart



Source: Public data. As of November 6, 2008 AWK was rated a BUY

Aqua America Price Chart

Source: Public data. As of December 1, 2007 WTR was rated a HOLD and changed to a BUY on August 7, 2009.

California Water Services Group Price Chart

Source: Public data. As of December 1, 2007 CWT was rated a HOLD.

Other Companies Mentioned:

Artesian Water Resources	(ARTNA	- NASDAQ)
Connecticut Water Service	(CTWS	- ")
Consolidated Water Co.	(CWCO	- "
)Middlesex Water	(MSEX	- ")
NiSource	(NI	- NYSE)
Pennichuck Water	(PNNW	- NASDAQ)
PNM Resources	(PNM	- NYSE)
RWE	(RWE	- XETRA)
SJW Corp.	(SJW	- NYSE)
Southwest Water	(SWWC	- NASDAQ)
York Water	(YORW	- ")

We***, Tim Winter, CFA, and Jose Garza*** the Research Analysts who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analysts have not been, are not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

We prepared this report as a matter of general information. We do not intend for this report to be a complete description of any security or company and it is not an offer or solicitation to buy or sell any security. All facts and statistics are from sources we believe to be reliable, but we do not guarantee their accuracy. We do not undertake to advise you of changes in our opinion or information. Unless otherwise noted, all stock prices reflect the closing price on the business day immediately prior to the date of this report. We do not use "price targets" predicting future stock performance. We do refer to "private market value" or PMV, which is the price that we believe an informed buyer would pay to acquire 100% of a company. There is no assurance that there are any willing buyers of a company at this price and we do not intend to suggest that any acquisition is likely. Additional information is available on request.

As of November 30, 2010, our affiliates beneficially own on behalf of their investment advisory clients or otherwise 18.24% of Pennichuck Water, 7.20% of PNM Resources, 5.85% of SJW Corp., 1.59% of Middlesex Water and less than 1% of American Water Works, Aqua America, Artesian Water Resources, California Water Services Group, Connecticut Water Service, Consolidated Water Co., NiSource, RWE, Southwest Water and York Water. Because the portfolio managers at our affiliates make individual investment decisions with respect to the client accounts they manage, these accounts may have transactions inconsistent with the recommendations in this report. These portfolio managers may know the substance of our research reports prior to their publication as a result of joint participation in research meetings or otherwise. One of our affiliates serves as an investments advisor to Aqua America or an affiliated entity and has received compensation within the past 12 months for these non-investment banking securities-related services.. The analysts who wrote this report may receive commissions from our customers' transactions in the securities mentioned in this report. The analyst who wrote this report may receive commissions from our customers' transactions in the securities mentioned in this report. Our affiliates may receive compensation from the companies referred to in this report for non-investment banking securities-related services, or may be soliciting these companies as clients for non-investment banking securities-related services. The analysts, who wrote this report, or members of their household, own no shares of the subject companies.

American Water Works (AWK - $24.78 – NYSE) Buy

Year	EPS	P/E	PMV	
2012P	$1.75	14.1x	$47	Dividend: $0.88 Current Return: 3.6%
2011P	1.60	15.5	45	Shares O/S: 174.9 million
2010E	1.50	16.6	42	52-Week Range: $24.93 - $19.41
2009A	1.25	19.9	-	

SUMMARY AND OPINION

Headquartered in Voorhees, NJ, American Water Works is the largest investor-owned water and wastewater utility company in the United States. The company's regulated utilities serve over 3.3 million customers in 20 states and generated $2.2 billion in revenues in 2009, which represented nearly 90% of consolidated revenues. AWK was purchased by the German multi-utility RWE in 2003 for $4.6 billion in cash plus the assumption of $3.0 billion in debt. As a non-core RWE subsidiary, profitability suffered due to regulatory rate stay-out provisions and patriotic attitudes from regulators and smaller private and municipal water utilities. In April of 2008, RWE IPO'd AWK at $21.50 per share, which represented a total equity market capitalization of $3.4 billion and $5.0 billion in debt. Following a series of secondary offerings throughout 2009, RWE no longer has an ownership interest in AWK.

AWK's primary focus is to improve regulated returns on common equity to a level closer to 10% with a secondary focus on enhancing earnings growth via consolidation and privatization. In July of 2010, AWK hired Jeffrey Sterba, formerly Chairman, President and CEO of PNM Resources, as CEO and President, to lead the regulated strategy. Through the achievement of operating efficiencies and rate recognition of infrastructure investment, we believe AWK can achieve 7%-plus earnings per share growth over the next several years. Over the long-term, we expect earnings growth to be enhanced via consolidation and privatization opportunities.

Our 2010, 2011 and 2012 earnings estimates are $1.50, $1.60 and $1.75, respectively. Our estimates result in a 2009-2012 CAGR of 11.3%. AWK expects to earn in the "upper end" of its 2010 earnings guidance range of $1.42-1.52 per share. First nine-months 2010 earnings were $1.30 per share compared with $1.05 for the same period last year. Third quarter 2010 regulated revenues increased by $92.1 million, or 14.8%, due primarily to the effect of rate increases ($52.8 million) and higher water volumes ($37.6 million). Increased demand led to higher revenues of $37.6 million, as water volumes rose by 7.4% across all customers driven primarily by more favorable weather when compared to last year's mild and wet summer.

AWK highlights that it has roughly 110-160 basis points of regulatory earnings "catch up" to achieve through its active regulatory filing program. The company is awaiting final orders for requests of annual revenue totaling $237.5 million including large rate requests in California ($37.3 million) and New Jersey ($84.7 million). AWK subsidiaries have implemented rate increases totaling roughly $390 million since January 1, 2008.

Table 3 **American Water Works Rate Cases Awaiting Final Orders**

State	Date Filed	Amount Filed	Requested ROE
Hawaii	7/2/2009	$1.3	10.60%
Arizona	7/2/2009	20.6	12.25
Kentucky	2/26/2010	25.8	11.50
Virginia	3/8/2010	6.9	11.50
New Jersey	4/9/2010	84.7	11.75
Pennsylvania	4/23/2010	11.7	11.50
California	7/1/2010	37.3	10.20
West Virginia	6/22/2010	18.4	11.50
Tennessee	9/17/2010	10.0	11.50
Arizona	11/3/2010	20.8	11.50
Total Pending		**$237.5**	

Source: Company documents

An additional 2.5% of ROE "catch" requires the pay down of roughly $1.2 billion of holding company debt associated with RWE goodwill and the elimination of normal utility regulatory lag. We believe regulatory lag can be partially mitigated via implementation of infrastructure surcharges similar to the Distribution Improvement Surcharge (DSIC) allowed in Pennsylvania and five other states. AWK's New Jersey-American subsidiary has requested this beneficial regulatory principle in New Jersey with a decision expected in late summer 2011.

Capital Expenditures

AWK expects 2010 capital expenditures to be at the "lower end" of its $800 million to $1 billion range. Capital expenditures are likely to total roughly $4.0-4.5 billion over the next five years, or $850 million per year. We forecast internally generated cash of roughly $650 million in 2010 and $700 million in 2011, as well as $350 million of equity and $400 million in debt issued over our forecast period. The company raised $245 million in common equity through the issuance of 14.5 million shares priced at $17.25 share in June of 2009, but does anticipate any "imminent" equity issuances. AWK has S&P corporate and unsecured credit ratings of BBB+.

Table 4 American Water Works Private Market Value Analysis, 2006A-2013P

(in millions, except per share data)	2006A	2007A	2008A	2009A	2010E	2011P	2012P	2013P
Revenue	$2,093.1	$2,214.2	$2,336.9	$2,440.7	$2,604.8	$2,733.8	$2,889.2	$3,002.0
EBITDA	733.5	782.1	834.0	917.1	1,026.9	1,096.8	1,188.9	1,250.7
Book Value (Excl. Goodwill)	851.1	2,085.8	2,402.5	2,750.5	2,922.9	3,350.3	3,523.2	3,716.5
Valuation Multiple	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Segment Value	$2,127.8	$5,214.4	$6,006.2	$6,876.2	$7,307.3	$8,375.7	$8,808.1	$9,291.2
Total Private Market Value	$2,127.8	$5,214.4	$6,006.2	$6,876.2	$7,307.3	$8,375.7	$8,808.1	$9,291.2
Less: Options Payments (1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity Private Market Value	$2,127.8	$5,214.4	$6,006.2	$6,876.2	$7,307.3	$8,375.7	$8,808.1	$9,291.2
Shares Outstanding (year-end)	160.0	160.0	160.0	174.6	175.5	187.5	188.2	189.0
PMV per share	$13	$33	$38	$39	$42	$45	$47	$49
Discount to PMV	*-86.3%*	*24.0%*	*34.0%*	*37.1%*	*40.5%*	*44.5%*	*47.0%*	*49.6%*
EPS	$0.41	$1.00	$1.10	$1.25	$1.50	$1.60	$1.75	$1.90
P/E	60.2	24.9	22.5	19.9	16.5	15.5	14.1	13.1
Year-End Book Value Per Share		$13.04	$14.99	$15.75	$16.65	$17.87	$18.72	$19.67
P/B		190%	165%	157%	149%	139%	132%	126%

Source: Company data and Gabelli & Company, Inc. estimates

(1) After-tax payments to buy out option holders at Private Market Value

Aqua America (WTR – $21.83 – NYSE) Buy

Year	EPS	P/E	PMV	
2012P	$1.08	20.3x	$28	Dividend: $0.62 Current Return: 2.9%
2011P	0.98	22.3	27	Shares O/S: 137.4 million
2010E	0.90	24.2	25	52-Week Range: $21.97 - $16.32
2009A	0.77	28.5	-	

SUMMARY AND OPINION

Headquartered in Bryn Mawr, PA, Aqua America is the nation's second-largest water utility serving roughly 3.0 million residents in thirteen states in the eastern half of the United States. Roughly 55% of earnings are derived from Aqua Pennsylvania, but Aqua subsidiaries also serve customers in OH, NC, IL, TX, NJ, NY, FL, IN, VA, ME, MO, and SC.

Over the past fifteen years, the company has been the industry's most aggressive consolidator, with the completion of more than 235 growth ventures, which have tripled its customer base. So far in 2010, WTR has completed fifteen acquisitions of water or wastewater systems and management believes there is currently an uptick in deal activity and hopes to achieve its long term target of 20-30 acquisitions per year, up from eighteen in 2009. WTR has ample access to capital as evidenced by its balance sheet (42.6% common equity), A+ rated subsidiary debt and historical valuation multiples ranging between 200-375% of book value. WTR boasts among the highest credit ratings of any publicly-traded utility and its overall embedded cost of debt is among the lowest.

We regard WTR as a well-managed, low-risk, high quality conservative utility with ample growth opportunities. Our 2010, 2011 and 2012 earnings estimates are $0.90, $0.98 and $1.08, respectively. Our estimates result in nearly 12% annual growth over the 2009-2012 period and 9.3% annual growth over the 2010-2012 period. Earnings growth will be driven by rate relief, including large revenue increases in PA ($24 million) and NJ ($4 million) in mid 2010, the acquisition of smaller systems, and continued cost control. Notably, WTR's cash generation condition continues to improve driven by frequent infrastructure improvement surcharges where nearly immediate returns are earned on a capital investment.

We expect that WTR's annual earnings growth will be roughly 8-10% per annum, which is in line with the long-term historic target rate. Flat earnings over the 2006-2009 timeframe were the result of the strategic acquisitions of troubled southern systems in the higher growth regions of NC and FL in 2004 and 2005. Given that management has spent several years working to improve operational performance and earned returns, we expect continued rate relief and efficiency improvement to improve returns of the Southern systems to the 10%-plus levels earned in WTR's more established states by 2012.

For the first nine months of 2010 earnings were $0.69 per share compared with $0.57 per share for the same period last year. Third quarter results benefitted from hot and dry weather in the East, which led to a 9% increase in customer usage in key operating areas compared to the same period in 2009. Results benefitted from $49 million in annual rate increases implemented year-to-date, including rate awards in PA, NJ, NY, NC, MO, OH, IN, ME, and VA. The company has $19.1 million in annual rate requests pending and expects to file for an additional $11.5 million in rate requests later in 2010. The first nine-months of 2010 O&M/Revenue ratio was 38.4% compared with 40.6% for the same period last year. In 2009, the ratio declined to 40.3%, from 41.8% in 2008. WTR is on target to achieve 2010 EBITDA of $400 million versus roughly $350 million in 2009.

Capital Expenditure Budget Weighted toward Pipe Replacement

Management invested roughly $239 million of its planned 2010 budget of $300 million through the first nine months.
Given that roughly 60-70% of capital investments are distribution-related, we view the nearly immediate earnings recovery that WTR receives on these investments as a favorable one. The five-year capital budget is currently estimated at $1.5 billion, including $20-30 million for acquisitions. We expect internally-generated funding to cover roughly 85% of the company's 2010 capital spending budget with any equity needs accomplished via internal programs.

We expect earnings growth to increasingly benefit from growing recognition of automatic rate adjustments for certain infrastructure investment. In 2009, the Pennsylvania Public Utility Commission authorized Aqua Pennsylvania, WTR's largest subsidiary, to increase its Distribution Improvement Surcharge (DSIC) to 7.5%, from 5%. The DSIC is a quarterly surcharge applied to customer bills to recognize (including return on) investment in pipe replacement and/or refurbishment. As a result, Aqua Pennsylvania can implement up to a 7.5% revenue increase before filing for a general rate case. The mechanism is designed to encourage the state's water utilities to invest in the water distribution system, which had been neglected for decades. States with similar infrastructure surcharge mechanisms include Missouri, Indiana, Illinois, Ohio, and New York. Connecticut and Delaware also have pipe investment mechanisms.

Valuation

WTR shares currently trade at 24.2X and 22.3X our 2010 and 2011 earnings estimates and 263% of book value, which compares to group multiples of 21.3X and 20.2X and 184% of book value. Over the past ten years, WTR shares have traded between 15-35X forward earnings and significant premium multiples to the group. We believe that the Private Market Value of WTR is around $25-27 per share, at a premium of 300-325% to book value, which compares to 250-325% premiums in the last ten takeover agreements, including the recent acquisition of Southwest Water at 268% of tangible book value by a private equity infrastructure group. We believe WTR shares warrant premium multiples given the company's national presence, strong financial condition, successful track record, EPS outlook, and strong reputation

Primary Risks to our recommendation include regulatory risk (poor rate decision), an acquisition announcement at a premium multiple, potential retirement of the CEO, higher interest rates, and market risk.

Table 5 **Aqua America Private Market Value Analysis, 2006A-2013P**

($ in millions, except per share data)	2006A	2007A	2008A	2009A	2010E	2011P	2012P	2013P
Utility Revenue	$533.5	$602.5	$627.0	$670.5	$686.5	$711.4	$737.2	$764.1
Utility EBITDA	281.6	305.6	319.9	355.7	390.6	422.0	457.3	492.3
Book Value	921.6	976.3	1,058.4	1,108.9	1,157.3	1,216.1	1,283.0	1,356.9
Multiple	2.5	2.5	2.5	3.0	3.0	3.0	3.0	3.0
Value of regulated utilities	$2,304.1	$2,440.7	$2,646.1	$3,326.7	$3,471.9	$3,648.3	$3,849.1	$4,070.6
Less: Net Options Payments (1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Private Market Value	$2,304.1	$2,440.7	$2,646.1	$3,326.7	$3,471.9	$3,648.3	$3,849.1	$4,069.6
Shares outstanding	131.8	133.6	134.7	136.1	136.8	137.4	138.1	138.8
PMV per share	$17	$18	$20	$24	$25	$27	$28	$29
Discount to PMV	*-25%*	*-19%*	*-11%*	*11%*	*14%*	*18%*	*22%*	*26%*
EPS	$0.70	$0.71	$0.73	$0.77	$0.90	$0.98	$1.08	$1.16
P/E	31.3	30.7	30.0	28.5	24.2	22.3	20.3	18.8
Year End Book Value	$6.93	$7.28	$7.82	$8.12	$8.45	$8.83	$9.27	$9.75
P/B	315%	300%	279%	269%	258%	247%	236%	224%
ROE	10.6%	10.0%	9.6%	9.6%	10.9%	11.3%	11.9%	12.2%

Source: Company data and Gabelli & Company, Inc. estimates

(1) Payments to buy out options holders at PMV, net of taxes.

California Water Service Group (CWT - $37.58 - NYSE) Hold

Year	EPS	P/E	PMV	
2012P	$2.25	16.7x	$55	Dividend: $1.19 Current Return: 3.2%
2011P	2.15	17.5	52	Shares O/S: 20.8 million
2010E	1.90	19.8	50	52-Week Range: $39.70 - $33.81
2009A	1.95	19.2	-	

SUMMARY AND OPINION

Located in San Jose, CA, California Water Service Group is the third-largest publicly traded water utility in the U.S., providing service to roughly two million people (495,000 customers) primarily in California, but also Washington, New Mexico and Hawaii.

We regard CWT as a high-quality water utility with a strong balance sheet (50% common equity), high investment grade credit ratings (S&P rates credit A+) and a constructive regulatory environment. We expect recent and pending rate relief combined with constructive regulatory mechanisms to result in low-risk 5% annual earnings growth for the foreseeable future.

Shares yield 3.2% on the $1.19 annual dividend, which we consider secure with growth potential. The company has raised the annual dividend rate by $0.01 per share in each of the last five years. The current payout ratio represents a comfortable 55% of our 2011 earnings estimate and we expect the dividend growth rate to increase above the recent track record of one penny per year beginning in 2011 to a rate more in line with long-term earnings growth.

Earnings Outlook

Our 2010, 2011 and 2012 earnings estimates are $1.90, $2.15, and $2.25 per share, respectively. Trailing twelve-month earnings for the period ended September 30, 2010 were $1.89 per share compared with $1.99 per share for the prior twelve-month period. CWT management has termed 2010 as a stretch year given that it is a transition year from a long history of annual rate filings to cover a three-year period for roughly one-third of the California service areas. CWT's 2011-2013 earnings power will be primarily determined by its significant pending rate case where a settlement and proposed CPUC decision await final approval by year-end 2010.

The settlement calls for a $25.4 million revenue increase to be effective January 1, 2011 and an additional $7 million of rate relief to be effective upon completion of certain capital projects. Estimated step increases resulting from the settlement total $24 million annually to be effective in each January 1, 2012 and 2013. In addition, the settlement allows for a pension cost balancing cost, which would further reduce future earnings fluctuations. After including $23.2 million of already-implemented revenue increases, the $7 million of future project related revenue increases, CWT management believes the settlement represents 79% of the requested revenue amount.

The rate case was initiated on July 2, 2009 when California Water requested a $70.6 million revenue increase in 2011 and an additional $24.8 million in each 2012 and 2013. As authorized by the California Water Action Plan, this rate filing began a new phase in CWT's rate cycle where the company will file consolidated rate cases for all 24 of its districts as opposed to the historical process of filing for roughly one-third of its districts every year. In May of 2009, the CPUC approved a 10.2% allowed ROE in the important "Cost-of-Capital" proceeding for the state's three largest water utilities. This new procedure to separate the rate of return from the general rate case is the same process that the CPUC utilizes to determine the rate of return for the state's energy companies. We expect the WRAM, a ratemaking mechanism that decouples water sales from revenues, and the MCBA, an account that allows Cal Water to track and recover or refund changes in water production costs, to continue to mitigate the earnings impact of fluctuations in water consumption and water production/purchased water costs

California Regulatory Environment

On October 28, 2010, the CPUC adopted a 2010 Water Action Plan (CWAP) to continue on the path the CPUC set in 2005 to apply regulatory best practices and to establish water conservation as a top priority. The 2005 CWAP set policy for the establishment of the WRAM, MCBA, streamlined rate filings and cost of capital proceedings. The 2010

CWAP lays the groundwork for offering incentives to promote company acquisitions and creating a distribution system improvement charge.

The new California Governor Jerry Brown will appoint two new commissioners to the five-member CPUC to fill the expiring terms of Commissioners Bohn and Grueneich. In addition, recently (January 2010) appointed Commissioner Ryan awaits final approval, but can serve for up to twelve-months without a formal approval. While the upcoming turnover creates some uncertainty regarding future regulatory treatment, we expect the current CPUC members to rule on the pending case and do not expect much change in the relatively constructive treatment of California's water utilities.

Company funded cap-ex in 2010 is estimated at $100-125 million and $120-130 million per annum over the next five years. Capital expenditures, including those developer-funded, totaled $110.6 million, $107.8 million and $89.5 million in 2009, 2008 and 2007, respectively. We expect CWT to fund its capital expenditure budget with internally-generated funds and the issuance of long-term debt and common equity, including a $75 million public issuance of equity in 2011. We expect CWT to maintain a common equity to total capitalization ratio of roughly 50-55%.

Table 6 **California Water Service Group Private Market Value Analysis, 2006A-2013P**

($ in millions, except per share data)	2006A	2007A	2008A	2009A	2010E	2011P	2012P	2013P
Utility Revenue	$334.7	$367.1	$410.3	$449.4	$482.3	$525.9	$568.3	$616.2
EBITDA	90.7	103.9	118.8	126.5	133.5	149.2	159.0	171.3
Book Value	378.3	385.7	402.9	420.6	511.0	532.2	554.7	579.1
Multiple	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Value of Utilities	$832.3	$848.6	$886.5	$925.4	$1,124.1	$1,170.9	$1,220.4	$1,273.9
Less: Net Options Payments (1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private Market Value	$832.3	$848.6	$886.5	$925.4	$1,124.1	$1,170.9	$1,220.4	$1,273.9
Shares outstanding	20.7	20.7	20.7	20.8	22.4	22.4	22.4	22.4
PMV per share	$40	$41	$43	$45	$50	$52	$55	$57
Discount to PMV	*7%*	*8%*	*12%*	*16%*	*25%*	*28%*	*31%*	*34%*
EPS	$1.34	$1.51	$1.92	$1.95	$1.90	$2.15	$2.25	$2.38
P/E	28.0	25.0	19.6	19.2	19.8	17.5	16.7	15.8
Year-End Book Value Per Share	$18.31	$18.64	$19.44	$20.26	$22.83	$23.78	$24.78	$25.87
P/B	*205%*	*202%*	*193%*	*186%*	*165%*	*158%*	*152%*	*145%*
ROE	7.8%	8.2%	10.1%	9.8%	8.8%	9.2%	9.2%	9.4%

Source: Company data and Gabelli & Company, Inc. estimates

(1) Payments to buy out options holders at PMV, net of taxes.

American States Water (AWR - $37.26 – NYSE) Initiating - Hold

Year	EPS	P/E	PMV	
2012P	$2.25	16.6x	$51	Dividend: $1.04 Current Return: 2.8%
2011P	2.10	17.8	48	Shares O/S: 19.6 million
2010E	1.95	19.1	46	52-Week Range: $39.61 - $31.20
2009A	1.62	22.9	-	

SUMMARY AND OPINION

American States Water Company is the fourth-largest publicly traded water utility in the U.S., providing water service to customers in California and Arizona (pending sale approval). AWR's primary subsidiary is Golden State Water Company (GSWC), a regulated water utility serving 256,000 customers in California. Through its Bear Valley Electric Services division, GSWC also distributes electricity to 23,000 electric customers in several San Bernardino Mountain communities. Though its non-regulated American States Utility Services (ASUS) subsidiary, AWR provides water and wastewater contract services and construction services to numerous military bases throughout the U.S.

On June 7, 2010, AWR announced an agreement to sell its Chaparral City Water Company (CCWC), a regulated water utility serving over 13,000 customers in the town of Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona to EPCOR. The sale price is $35 million, including the assumption of $6 million in debt, and roughly $29 million will be paid to AWR at closing sometime in 2011 and used to pay down short-term debt and defer equity needs.

Our 2010, 2011 and 2012 earnings estimates are $1.95, $2.10, and $2.25 per share, respectively. First nine-months 2010 earnings $1.53 (excludes a $0.32 per share regulatory impairment that could be reversed in a future period), but would have been $1.74 per share had the retroactive rate increase discussed below been in place on January 1, 2010. Management estimates that retroactive rate increase would have added $0.33 per share to pre-tax operating income, or roughly $0.21 to per share, to nine-months reported operating earnings of $1.53 per share. We expect future GSWC earnings to be more predictable owing to improved CPUC regulatory principles, including the WRAM, the MCBA, pension adjustments, a 10.2% allowed ROE and a recent a decision in a long-awaited 2008 general rate case. A general rate case for all three GSWC water regions will be filed in July 2011 with rates effective January 2013.

Over the longer-term, we expect 5% annual EPS and dividend growth driven by rate base additions, privatization contracts with military bases and local municipal water/wastewater systems, and selected consolidation of smaller water utilities. We expect growth to be achieved with relatively low risk given public and regulatory support for increased infrastructure investment and efficiencies achieved through privatization and consolidation.

On November 19, 2010, the CPUC approved rate increases for GSWCs Region II and Region III service areas and to recover general office expenses at GSWC's headquarters. The long-awaited decision adopted the partial settlement agreement reached between GSWC and the Division of Ratepayer Advocates calling for 2010 revenue increases of $32 million, including $14 million for supply costs, and is retroactive to January 1, 2010. Had the CPUC decision and final rates been in place prior to the end of September 30, 2010, the financial results for AWR for the nine months ended September 30, 2010 would have reflected the $32 million annual revenue increase. This amount will be recorded in the fourth quarter of 2010 and a surcharge will be implemented to recover the retroactive revenues over approximately 24 months. In addition, the order allows GSWC a pension balancing account. The case was initiated in July of 2008, when GSWC filed for a $42.2 million annual revenue increase in 2010, $3.5 million in 2011, and $5.8 million in 2012 for both regions.

On January 4, 2010, GSWC filed a Region I general rate case requesting a $5.3 million increase for 2011 and an additional $1.2 million in 2012.

ASUS has successfully targeted military bases as a source of niche financial growth and established itself as the premier provider of water and wastewater services for the U.S. military. ASUS currently operates water and wastewater systems for eight military bases across the country. Larger bases served include Fort Bliss, Fort Bragg, Fort Jackson, Andrews Air Force Base as well as four bases in Virginia. The initial financial benefits of military base privatization have been marginal, but we expect profitability to improve as price re-determinations are implemented, the contract portfolio increases and overhead expenses are spread over a larger critical mass. For the nine months ended September 30, 2010, pre-tax operating income for contracted services increased by $8.1 million or $0.26 per share as compared to the same period in 2009, largely due to contract modification and request for equitable adjustments.

Table 7 **American States Water Private Market Analysis, 2006A-2013P**

(in millions, except per share data)	2006A	2007A	2008A	2009A	2010E	2011P	2012P	2013P
Revenue	$268.6	$301.4	$318.7	$361.0	$399.7	$426.8	$453.0	$479.0
EBITDA	82.9	96.7	86.4	103.1	122.1	131.4	141.1	148.6
Book Value	283.7	302.1	310.5	359.4	380.3	403.7	429.7	438.7
Valuation Multiple	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Segment Value	$709.3	$755.3	$776.3	$898.6	$855.7	$908.4	$966.7	$987.0
Total Private Market Value	$709.3	$755.3	$776.3	$898.6	$855.7	$908.4	$966.7	$987.0
Less: Options Payments (1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity Private Market Value	$709.3	$755.3	$776.3	$898.6	$855.7	$908.4	$966.7	$987.0
Shares Outstanding (year-end)	17.0	17.2	17.4	18.6	18.7	18.7	18.8	18.9
PMV per share	$42	$44	$45	$48	$46	$48	$51	$52
Discount to PMV	*10.4%*	*15.0%*	*16.4%*	*23.1%*	*18.8%*	*23.1%*	*27.4%*	*28.6%*
EPS	$1.44	$1.63	$1.48	$1.62	$1.95	$2.10	$2.25	$2.35
P/E	25.9	22.8	25.2	22.9	19.1	17.8	16.6	15.9
Year-End Book Value Per Share	$16.64	$17.53	$17.83	$19.37	$20.39	$21.54	$22.81	$23.19
P/B	224%	213%	209%	192%	183%	173%	163%	161%
ROE	8.9%	9.5%	8.4%	8.7%	9.8%	10.0%	10.1%	10.2%

Source: Company data and Gabelli & Company, inc. estimates

(1) After-tax payments to buy out option holders at Private Market Value