
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-8966

SJW GROUP

(Exact name of registrant as specified in its charter)

Delaware

77-0066628

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

110 West Taylor Street, San Jose, CA

95110

(Address of principal executive offices)

(Zip Code)

(408) 279-7800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	SJW	New York Stock Exchange LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Non-accelerated filer
Accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of October 24, 2022, there were 30,319,317 shares of the registrant's Common Stock outstanding.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the federal securities laws relating to future events and future results of SJW Group and its subsidiaries that are based on current expectations, estimates, forecasts, and projections about SJW Group and its subsidiaries and the industries in which SJW Group and its subsidiaries operate and the beliefs and assumptions of the management of SJW Group. Some of these forward-looking statements can be identified by the use of forward-looking words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates,” “projects,” “strategy,” or “anticipates,” or the negative of those words or other comparable terminology. These forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict.

The accuracy of such statements is subject to a number of risks, uncertainties and assumptions including, but not limited to, the following factors:

- the effect of water, utility, environmental and other governmental policies and regulations, including actions concerning rates, authorized return on equity, authorized capital structures, capital expenditures and other decisions;
- changes in demand for water and other services;
- the impact of the Coronavirus (“COVID-19”) pandemic on our business operation and financial results;
- unanticipated weather conditions and changes in seasonality including those affecting water supply and customer usage;
- climate change and the effects thereof;
- unexpected costs, charges or expenses;
- our ability to successfully evaluate investments in new business and growth initiatives;
- contamination of our water supplies and damage or failure of our water equipment and infrastructure;
- the risk of work stoppages, strikes and other labor-related actions;
- catastrophic events such as fires, earthquakes, explosions, floods, ice storms, tornadoes, hurricanes, terrorist acts, physical attacks, cyber-attacks, epidemic or other similar occurrences;
- changes in general economic, political, business and financial market conditions;
- the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings, changes in interest rates, compliance with regulatory requirements, compliance with the terms and conditions of our outstanding indebtedness and general market and economic conditions; and
- legislative and general market and economic developments.

Results for a quarter are not indicative of results for a full year due to seasonality and other factors. In addition, actual results are subject to other risks and uncertainties that relate more broadly to our overall business, including those more fully described in our filings with the SEC, including our most recent reports on Form 10-K, Form 10-Q and Form 8-K. Forward-looking statements are not guarantees of performance, and speak only as of the date made, and we undertake no obligation to update or revise any forward-looking statements except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SJW GROUP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands, except share and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
REVENUE	\$ 175,981	166,923	\$ 449,324	433,949
OPERATING EXPENSE:				
Production Expenses:				
Purchased water	38,744	33,121	84,313	76,434
Power	3,913	4,179	10,387	10,573
Groundwater extraction charges	19,059	23,736	51,347	59,419
Other production expenses	11,888	11,069	33,607	30,302
Total production expenses	73,604	72,105	179,654	176,728
Administrative and general	23,909	22,713	71,374	64,932
Maintenance	7,065	6,369	20,651	19,221
Property taxes and other non-income taxes	8,354	8,125	24,242	22,789
Depreciation and amortization	25,529	23,837	78,342	70,787
Gain on sale of nonutility properties	(82)	—	(5,532)	—
Total operating expense	138,379	133,149	368,731	354,457
OPERATING INCOME	37,602	33,774	80,593	79,492
OTHER (EXPENSE) INCOME:				
Interest on long-term debt and other interest expense	(14,190)	(13,535)	(42,160)	(40,655)
Pension non-service cost	970	334	2,860	999
Gain on sale of Texas Water Alliance	—	—	—	3,000
Other, net	875	1,244	2,694	4,782
Income before income taxes	25,257	21,817	43,987	47,618
Provision for income taxes	223	2,749	3,658	5,159
NET INCOME	25,034	19,068	40,329	42,459
Other comprehensive (loss) income, net	(173)	(12)	(602)	133
COMPREHENSIVE INCOME	\$ 24,861	19,056	\$ 39,727	42,592
EARNINGS PER SHARE				
Basic	\$ 0.83	0.64	\$ 1.33	1.44
Diluted	\$ 0.82	0.64	\$ 1.33	1.43
DIVIDENDS PER SHARE	\$ 0.36	0.34	\$ 1.08	1.02
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	30,269,462	29,816,736	30,246,201	29,496,533
Diluted	30,392,295	29,952,477	30,358,268	29,625,784

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW GROUP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share and per share data)

	September 30, 2022	December 31, 2021
ASSETS		
Utility plant:		
Land	\$ 39,885	39,004
Depreciable plant and equipment	3,596,198	3,381,908
Construction in progress	127,528	176,427
Intangible assets	35,960	36,276
	<u>3,799,571</u>	<u>3,633,615</u>
Less accumulated depreciation and amortization	1,206,690	1,136,116
	<u>2,592,881</u>	<u>2,497,499</u>
Real estate investments and nonutility properties	58,012	57,632
Less accumulated depreciation and amortization	16,855	15,951
	<u>41,157</u>	<u>41,681</u>
CURRENT ASSETS:		
Cash and cash equivalents:		
Cash	13,190	10,908
Restricted cash	—	1,211
Accounts receivable:		
Customers, net of allowances for uncollectible accounts of \$5,665 and \$4,600 on September 30, 2022 and December 31, 2021, respectively	63,760	53,699
Income tax	—	2,308
Other	7,300	4,735
Accrued unbilled utility revenue	53,682	44,026
Prepaid expenses	12,964	9,667
Current regulatory assets, net	738	2,629
Other current assets	6,266	4,902
	<u>157,900</u>	<u>134,085</u>
OTHER ASSETS:		
Net regulatory assets, less current portion	145,945	151,992
Investments	14,438	15,784
Goodwill	640,311	640,471
Other	12,072	10,883
	<u>812,766</u>	<u>819,130</u>
	<u>\$ 3,604,704</u>	<u>3,492,395</u>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW GROUP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share and per share data)

	September 30, 2022	December 31, 2021
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Stockholders' equity:		
Common stock, \$0.001 par value; authorized 70,000,000 shares; issued and outstanding shares 30,315,265 on September 30, 2022 and 30,181,348 on December 31, 2021	\$ 30	30
Additional paid-in capital	614,226	606,392
Retained earnings	435,856	428,260
Accumulated other comprehensive income	(765)	(163)
Total stockholders' equity	1,049,347	1,034,519
Long-term debt, less current portion	1,453,748	1,492,935
	2,503,095	2,527,454
CURRENT LIABILITIES:		
Line of credit	199,170	62,996
Current portion of long-term debt	4,340	39,106
Accrued groundwater extraction charges, purchased water and power	27,694	17,200
Accounts payable	29,765	30,391
Accrued interest	17,905	14,174
Accrued payroll	11,524	11,583
Income tax payable	3,859	—
Other current liabilities	24,453	27,821
	318,710	203,271
DEFERRED INCOME TAXES	208,130	200,451
ADVANCES FOR CONSTRUCTION	140,842	130,693
CONTRIBUTIONS IN AID OF CONSTRUCTION	319,866	316,479
POSTRETIREMENT BENEFIT PLANS	89,610	89,998
OTHER NONCURRENT LIABILITIES	24,451	24,049
COMMITMENTS AND CONTINGENCIES		
	\$ 3,604,704	3,492,395

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW GROUP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
(in thousands, except share and per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Number of Shares	Amount				
BALANCES, December 31, 2021	30,181,348	\$ 30	\$ 606,392	\$ 428,260	\$ (163)	\$ 1,034,519
Net income	—	—	—	3,737	—	3,737
Unrealized loss on investment, net of tax benefit of \$67	—	—	—	—	(181)	(181)
Stock-based compensation	—	—	1,552	(20)	—	1,532
Issuance of restricted and deferred stock units	37,879	—	(1,269)	—	—	(1,269)
Employee stock purchase plan	17,918	—	1,049	—	—	1,049
Common stock issuance costs	—	—	(87)	—	—	(87)
Dividends paid (\$0.36 per share)	—	—	—	(10,882)	—	(10,882)
BALANCES, March 31, 2022	30,237,145	30	607,637	421,095	(344)	1,028,418
Net income	—	—	—	11,558	—	11,558
Unrealized loss on investment, net of tax of \$0	—	—	—	—	(248)	(248)
Stock-based compensation	—	—	1,041	(23)	—	1,018
Issuance of restricted and deferred stock units	10,529	—	(6)	—	—	(6)
Common stock issuance costs	—	—	(6)	—	—	(6)
Dividends paid (\$0.36 per share)	—	—	—	(10,889)	—	(10,889)
BALANCES, June 30, 2022	30,247,674	30	608,666	421,741	(592)	1,029,845
Net income	—	—	—	25,034	—	25,034
Unrealized loss on investment, net of tax benefit of \$154	—	—	—	—	(173)	(173)
Stock-based compensation	—	—	1,398	(23)	—	1,375
Issuance of restricted and deferred stock units	1,316	—	13	—	—	13
Employee stock purchase plan	18,667	—	1,042	—	—	1,042
Common stock issuance, net of costs	47,608	—	3,107	—	—	3,107
Dividends paid (\$0.36 per share)	—	—	—	(10,896)	—	(10,896)
BALANCES, September 30, 2022	30,315,265	\$ 30	\$ 614,226	\$ 435,856	\$ (765)	\$ 1,049,347

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW GROUP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)
(in thousands, except share and per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Number of Shares	Amount				
BALANCES, December 31, 2020	28,556,605	\$ 29	\$ 510,158	\$ 408,037	\$ (1,064)	\$ 917,160
Net income	—	—	—	2,616	—	2,616
Unrealized income on investment, net of taxes of \$14	—	—	—	—	38	38
Stock-based compensation	—	—	1,280	(32)	—	1,248
Issuance of restricted and deferred stock units	30,547	—	(964)	—	—	(964)
Employee stock purchase plan	18,235	—	1,026	—	—	1,026
Common stock issuance, net of costs	1,184,500	1	66,895	—	—	66,896
Dividends paid (\$0.34 per share)	—	—	—	(9,724)	—	(9,724)
BALANCES, March 31, 2021	29,789,887	30	578,395	400,897	(1,026)	978,296
Net income	—	—	—	20,775	—	20,775
Unrealized gain on investment, net of tax of \$39	—	—	—	—	107	107
Stock-based compensation	—	—	791	(28)	—	763
Issuance of restricted and deferred stock units	15,040	—	(9)	—	—	(9)
Common stock issuance, net of costs	—	—	(120)	—	—	(120)
Dividends paid (\$0.34 per share)	—	—	—	(10,133)	—	(10,133)
BALANCES, June 30, 2021	29,804,927	30	579,057	411,511	(919)	989,679
Net income	—	—	—	19,068	—	19,068
Unrealized loss on investment, net of tax benefit of \$4	—	—	—	—	(12)	(12)
Stock-based compensation	—	—	1,130	(29)	—	1,101
Issuance of restricted and deferred stock units	186	—	14	—	—	14
Employee stock purchase plan	17,069	—	1,000	—	—	1,000
Dividends paid (\$0.34 per share)	—	—	—	(10,139)	—	(10,139)
BALANCES, September 30, 2021	29,822,182	\$ 30	\$ 581,201	\$ 420,411	\$ (931)	\$ 1,000,711

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW GROUP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Nine months ended September 30,	
	2022	2021
OPERATING ACTIVITIES:		
Net income	\$ 40,329	42,459
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	79,862	71,912
Deferred income taxes	7,135	4,140
Stock-based compensation	3,991	3,201
Allowance for equity funds used during construction	(1,324)	(1,490)
Gain on sale of nonutility properties and Texas Water Alliance	(5,532)	(3,000)
Changes in operating assets and liabilities:		
Accounts receivable and accrued unbilled utility revenue	(22,511)	(19,647)
Accounts payable and other current liabilities	(1,475)	3,697
Accrued groundwater extraction charges, purchased water and power	10,494	9,846
Tax receivable and payable, and other accrued taxes	(1,851)	832
Postretirement benefits	(2,719)	265
Regulatory assets and liabilities excluding income tax temporary differences, net and postretirement benefits	21,776	(12,418)
Up-front service concession payment	(1,600)	—
Other changes, net	2,774	458
NET CASH PROVIDED BY OPERATING ACTIVITIES	129,349	100,255
INVESTING ACTIVITIES:		
Additions to utility plant:		
Company-funded	(160,515)	(169,238)
Contributions in aid of construction	(17,773)	(12,520)
Additions to real estate investments	(610)	(606)
Payments to retire utility plant, net of salvage	(2,432)	(3,535)
Proceeds from sale of nonutility properties and Texas Water Alliance	310	3,000
Payments for business acquisitions	(433)	—
NET CASH USED IN INVESTING ACTIVITIES	(181,453)	(182,899)
FINANCING ACTIVITIES:		
Borrowings on line of credit	152,655	67,099
Repayments on line of credit	(16,481)	(120,120)
Long-term borrowings	15,000	137,000
Repayments of long-term borrowings	(87,757)	(52,700)
Issuance of common stock, net of issuance costs	3,107	66,775
Dividends paid	(32,667)	(29,996)
Receipts of advances and contributions in aid of construction	21,593	23,585
Refunds of advances for construction	(2,177)	(2,179)
Other changes, net	(98)	132
NET CASH PROVIDED BY FINANCING ACTIVITIES	53,175	89,596
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	1,071	6,952
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD	12,119	9,269
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD	13,190	16,221
LESS RESTRICTED CASH, END OF PERIOD	—	2,202
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 13,190	14,019
Cash paid during the period for:		
Interest	\$ 42,473	39,533
Income taxes	572	7,643
Supplemental disclosure of non-cash activities:		
Accrued payables for additions to utility plant	\$ 22,044	26,628
Utility property installed by developers	976	1,527

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2022
(in thousands, except share and per share data)

Note 1. General

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the results for the interim periods.

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission. The Notes to Consolidated Financial Statements in SJW Group's 2021 Annual Report on Form 10-K should be read with the accompanying unaudited condensed consolidated financial statements.

SJW Group is a holding company with five wholly-owned subsidiaries: San Jose Water Company ("SJWC"), SJWNE LLC, SJWTX, Inc., SJW Land Company, and SJWTX Holdings, Inc. SJWNE LLC is the holding company for Connecticut Water Service, Inc. ("CTWS") whose wholly-subsiaries are The Connecticut Water Company ("Connecticut Water"), The Maine Water Company ("Maine Water"), New England Water Utility Services, Inc. ("NEWUS"), and Chester Realty, Inc. SJWC, Connecticut Water, SJWTX, Inc. doing business as Canyon Lake Water Service Company ("CLWSC"), Maine Water and NEWUS are referred to as "Water Utility Services." SJW Land Company and Chester Realty, Inc. are collectively referred to as "Real Estate Services."

Revenue

Water sales are seasonal in nature and influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by customers to vary significantly. Due to the seasonal nature of the water business, the operating results for interim periods are not indicative of the operating results for a 12-month period. Revenue is generally higher in the warm, dry summer months when water usage and sales are greater, and lower in the winter months when cooler temperatures and increased precipitation curtail water usage resulting in lower sales.

The major streams of revenue for SJW Group are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenue from contracts with customers	\$ 169,972	163,103	\$ 440,406	422,545
Alternative revenue programs, net	3,172	2,216	(1,737)	4,984
Other balancing and memorandum accounts, net	1,857	639	6,719	3,637
Other regulatory mechanisms, net	(494)	(438)	(260)	(1,284)
Rental income	1,474	1,403	4,196	4,067
	<u>\$ 175,981</u>	<u>166,923</u>	<u>\$ 449,324</u>	<u>433,949</u>

Real Estate Investments and Nonutility Properties

The major components of real estate investments and nonutility properties as of September 30, 2022, and December 31, 2021, are as follows:

	September 30, 2022	December 31, 2021
Land	\$ 12,615	12,615
Buildings and improvements	45,397	45,017
Subtotal	58,012	57,632
Less: accumulated depreciation and amortization	16,855	15,951
Total	<u>\$ 41,157</u>	<u>41,681</u>

On October 29, 2021, SJWC sold two nonutility properties located in San Jose, California for \$13,150. SJW Group recognized a pre-tax gain on the sale of nonutility properties of \$7,230, after selling expenses of \$277 for one of the properties sold, and a gain of \$5,442, after selling expenses of \$178, was deferred on the other nonutility property pending California Public Utilities

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
September 30, 2022
(in thousands, except share and per share data)

Commission (“CPUC”) review for the year ended December 31, 2021. On February 15, 2022, the CPUC review was completed and \$5,442 was recognized as gain on sale of the second nonutility property.

A former wholly owned subsidiary of SJW Group, Texas Water Alliance Limited, was sold to Guadalupe-Blanco River Authority (“GBRA”) in 2017. The sales agreement with GBRA included a holdback amount of \$3,000 to be paid to SJW Group on June 30, 2021, subject to reduction under certain conditions. SJW Group received the holdback amount without reduction from the GBRA on June 29, 2021, and recognized a pre-tax gain on sale of \$3,000.

Fair Value Measurement

The following instruments are not measured at fair value on SJW Group’s condensed consolidated balance sheets as of September 30, 2022, but require disclosure of their fair values: cash and cash equivalents, accounts receivable and accounts payable. The estimated fair value of such instruments as of September 30, 2022, approximates their carrying value as reported on the condensed consolidated balance sheets. The estimated fair value of such financial instruments were determined using the income approach based on the present value of estimated future cash flows. There have been no changes in valuation techniques during the three and nine months ended September 30, 2022. The fair value of these instruments would be categorized as Level 2 in the fair value hierarchy, with the exception of cash and cash equivalents, which would be categorized as Level 1.

The fair value of SJW Group’s long-term debt was approximately \$1,247,530 and \$1,651,825 as of September 30, 2022, and December 31, 2021, respectively, and was determined using a discounted cash flow analysis, based on the current rates for similar financial instruments of the same duration and creditworthiness of the company. The book value of long-term debt was \$1,458,088 and \$1,532,041 as of September 30, 2022, and December 31, 2021, respectively. The fair value of long-term debt would be categorized as Level 2 in the fair value hierarchy.

CTWS’s additional retirement benefits under the supplemental executive retirement plans and retirement contracts are funded by investment assets held by a Rabbi Trust. The fair value of the money market funds, mutual funds and fixed income investments in the Rabbi Trust was \$2,790 and \$3,797 as of September 30, 2022, and December 31, 2021, respectively, and are categorized as Level 1 in the fair value hierarchy.

Earnings per Share

Basic earnings per share is calculated using income available to common stockholders, divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated using income available to common stockholders divided by the weighted average number of shares of common stock including both shares outstanding and shares potentially issuable in connection with restricted common stock awards under SJW Group’s Long-Term Incentive Plan (as amended, the “Incentive Plan”), shares potentially issuable under the performance stock plans assumed through the business combination with CTWS, and shares potentially issuable under the Employee Stock Purchase Plan (“ESPP”). For the three months ended September 30, 2022 and 2021, 2,416 and 1,558 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively. For the nine months ended September 30, 2022 and 2021, 18,240 and 14,441 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively.

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
September 30, 2022
(in thousands, except share and per share data)

Note 2. Regulatory Matters

Regulatory assets, net are comprised of the following as of September 30, 2022, and December 31, 2021:

	September 30, 2022	December 31, 2021
Regulatory assets:		
Income tax temporary differences, net	\$ 33,811	22,420
Postretirement pensions and other postretirement benefits	64,934	62,197
Business combinations debt premium, net	18,031	19,937
Balancing and memorandum accounts, net	22,583	38,334
Water Rate Adjustment	(2,800)	2,588
Other, net	10,124	9,145
Total regulatory assets, net in Condensed Consolidated Balance Sheets	146,683	154,621
Less: current regulatory assets, net	738	2,629
Total regulatory assets, net, less current portion	\$ 145,945	151,992

As of September 30, 2022, and December 31, 2021, SJW Group's regulatory assets, net, not earning a return primarily included postretirement pensions and the unfunded amount of other medical benefits, and business combination debt premiums, net. The total amount of regulatory assets, net not earning a return at September 30, 2022, and December 31, 2021, either by interest on the regulatory asset/liability or as a component of rate base at the allowed rate of return was \$86,113 and \$84,887, respectively.

Balancing and Memorandum Accounts

SJWC has established balancing accounts for the purpose of tracking the under-collection or over-collection associated with expense changes and revenue authorized by the CPUC to offset those expense changes. SJWC also maintains memorandum accounts to track revenue impacts due to catastrophic events, certain unforeseen water quality expenses related to new federal and state water quality standards, energy efficiency, water conservation, water tariffs, and other approved activities or as directed by the CPUC. The Monterey Water Revenue Adjustment Mechanism ("MWRAM") tracks the difference between the revenue received for actual metered sales through the tiered volumetric rate and the revenue that would have been received with the same actual metered sales if a uniform rate would have been in effect. The Water Conservation Memorandum Account ("WCMA") allows SJWC to track lost revenue, net of related water costs, associated with reduced sales due to water conservation and associated calls for water use reductions. SJWC records the lost revenue captured in the WCMA balancing accounts. Drought surcharges collected are used to offset the revenue losses tracked in the WCMA. On October 11, 2022, the CPUC issued General Rate Case Decision No. 22-10-005, which approved a recovery of \$18,174 in balancing and memorandum accounts from customers.

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Balancing and memorandum accounts recorded to regulatory assets, net for the three and nine months ended September 30, 2022, and 2021 are as follows:

	Three months ended September 30, 2022				Three months ended September 30, 2021			
	Beginning Balance	Regulatory Asset Increase (Decrease)	Refunds (Collections) Adjustments	Ending Balance	Beginning Balance	Regulatory Asset Increase (Decrease)	Refunds (Collections) Adjustments	Ending Balance
Revenue accounts:								
MWRAM	\$ 21,096	1,381	—	22,477	\$ 15,278	363	—	15,641
WCMA	(14,961)	3,868	(8,708)	(19,801)	668	—	—	668
Cost of capital memorandum account	(1,568)	(8)	—	(1,576)	(1,562)	—	—	(1,562)
All others	417	590	—	1,007	(1,164)	397	—	(767)
Total revenue accounts	4,984	5,831	(8,708)	2,107	13,220	760	—	13,980
Cost-recovery accounts:								
Water supply costs	11,111	391	—	11,502	9,895	388	—	10,283
Pension	5,069	59	—	5,128	4,210	366	—	4,576
Hydro Generation Research, Development and Demonstration Memorandum Account (“PRVMA”)	543	3	(106)	440	928	—	(121)	807
COVID-19 Catastrophic Event Memorandum Account (“CEMA”)	2,586	420	—	3,006	2,618	567	—	3,185
All others	479	(79)	—	400	446	—	—	446
Total cost-recovery accounts	19,788	794	(106)	20,476	18,097	1,321	(121)	19,297
Total	\$ 24,772	6,625	(8,814)	22,583	\$ 31,317	2,081	(121)	33,277
	Nine months ended September 30, 2022				Nine months ended September 30, 2021			
	Beginning Balance	Regulatory Asset Increase (Decrease)	Refunds (Collections) Adjustments	Ending Balance	Beginning Balance	Regulatory Asset Increase (Decrease)	Refunds (Collections) Adjustments	Ending Balance
Revenue accounts:								
MWRAM	\$ 16,866	5,610	1	22,477	\$ 12,077	3,563	1	15,641
WCMA	3,534	2,768	(26,103)	(19,801)	666	—	2	668
Cost of capital memorandum account	(1,563)	(13)	—	(1,576)	(1,561)	(1)	—	(1,562)
All others	(386)	1,392	1	1,007	(1,139)	369	3	(767)
Total revenue accounts	18,451	9,757	(26,101)	2,107	10,043	3,931	6	13,980
Cost-recovery accounts:								
Water supply costs	10,545	957	—	11,502	8,123	2,159	1	10,283
Pension	4,941	187	—	5,128	3,478	1,098	—	4,576
PRVMA	707	5	(272)	440	1,108	—	(301)	807
CEMA	3,245	(239)	—	3,006	2,266	919	—	3,185
All others	445	(45)	—	400	445	1	—	446
Total cost-recovery accounts	19,883	865	(272)	20,476	15,420	4,177	(300)	19,297
Total	\$ 38,334	10,622	(26,373)	22,583	\$ 25,463	8,108	(294)	33,277

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All balancing accounts and memorandum accounts not included for recovery or refund in the current general rate case will be reviewed by the CPUC in SJWC’s next general rate case or at the time an individual account balance reaches a threshold of 2% of authorized revenue, whichever occurs first.

Note 3. Capitalization

On November 17, 2021, SJW Group entered into an equity distribution agreement (the “Equity Distribution Agreement”) with J.P. Morgan Securities LLC, Janney Montgomery Scott LLC, RBC Capital Markets, LLC and Wells Fargo Securities, LLC, pursuant to which the company may offer and sell shares of its common stock, \$0.001 par value per share, from time to time in “at-the-market” offerings, having an aggregate gross sales price of up to \$100,000. For the three and nine months ended September 30, 2022, SJW Group issued and sold a total of 47,608 shares of common stock with a weighted average price of \$66.26 per share and received approximately \$3,107 in net proceeds under the Equity Distribution Agreement. Since the inception of the Equity Distribution Agreement, SJW Group has issued and sold 402,723 shares of common stock with a weighted average price of \$69.91 for a total net proceeds of \$27,360 and has a remaining \$71,845 under the Equity Distribution Agreement to issue into shares.

On March 8, 2021, SJW Group entered into an underwriting agreement with J.P. Morgan Securities LLC, as the representative of the several underwriters named therein (the “Underwriters”), which provided for the issuance and sale by SJW Group to the Underwriters 1,030,000 shares of our common stock, par value \$0.001 per share, in an underwritten public offering (the “Offering”). The shares in the Offering were sold at a public offering price of \$59.00 per share. SJW Group also granted the Underwriters an option to purchase up to 154,500 additional shares of common stock, which was exercised in full. The Offering closed on March 11, 2021, and the offering of option shares closed on March 16, 2021. SJW Group received net proceeds of approximately \$66,775 from the Offering and the sale of option shares, after deducting the underwriting discounts and commissions and offering expenses.

Note 4. Bank Borrowings and Long-Term Liabilities

SJW Group’s contractual obligations and commitments include senior notes, bank term loans, revenue bonds, state revolving fund loans and other obligations. Water Utility Services has received advance deposit payments from its customers on certain construction projects. The refunds of the advance deposit payments constitute an obligation of the respective entities.

Short-term Financing Agreements

On August 2, 2022, SJW Group, SJWC, SJWTX, Inc., and CTWS entered into a \$300,000 syndicated line of credit agreement (the “Credit Agreement”) with JPMorgan Chase Bank, N.A., as Administrative Agent (“JP Morgan”), Wells Fargo Bank, National Association, as Documentation Agent, and a syndicate of banks. Proceeds of borrowings under the Credit Agreement will be used for refinancing existing debt, working capital, and general corporate purposes. The Credit Agreement has a maturity date of August 2, 2027.

Under the terms of the Credit Agreement, each of SJW Group, SJWC, SJWTX, Inc., and CTWS is a borrower with several and not joint liability. Each borrower has an initial borrowing entitlement, or sublimit, which can be periodically adjusted from time to time as set forth in the Credit Agreement. The initial sublimit of each borrower is as follows:

	Initial Sublimit
SJW Group	\$ 50,000
SJWC	140,000
CTWS	90,000
SJWTX, Inc.	20,000
	<u>\$ 300,000</u>

Borrowings under the Credit Agreement bear interest at either the Alternative Base Rate (as defined in the Credit Agreement and hereinafter referred to as “ABR”) or the Adjusted Term Secured Overnight Financing Rate (as defined in the Credit Agreement and hereinafter referred to as “SOFR”). ABR borrowings (which are borrowings bearing interest at a rate determined by reference to ABR) will bear interest at a rate per annum equal to ABR plus the applicable rate. SOFR borrowings (which are borrowings bearing interest at a rate determined by reference to SOFR) will bear interest at a rate per

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annum equal to SOFR plus the applicable rate. The applicable rate and pricing is variable depending on the credit ratings of the borrower.

The Credit Agreement contains customary representations, warranties and events of default, as well as certain restrictive covenants customary for facilities of this type, including restrictions on indebtedness, liens, asset sales, and fundamental changes. The Credit Agreement also includes a financial covenant that requires each of the borrowers to maintain its funded debt to capitalization ratio at or below 70%.

This Credit Agreement replaces the existing \$140,000 credit agreement, dated April 23, 2021, between SJWC and JP Morgan and the existing \$5,000 credit agreement, dated April 23, 2021, between SJWTX and JP Morgan, with SJW Group as guarantor, both of which were terminated upon entering into the Credit Agreement and were set to mature on December 31, 2023. In addition, on August 2, 2022, CTWS and Citizens Bank, National Association, entered into a fourth modification to the amended and restated revolving credit facility, dated December 18, 2019, as amended, pursuant to which the credit commitment was reduced from \$75,000 to \$10,000.

Long-term Financing Agreements

On April 6, 2022, Maine Water entered into a credit agreement with a commercial bank, pursuant to an existing master loan agreement under which the commercial bank issued Maine Water a promissory note on the same date with an aggregate principal amount of \$15,000 at a fixed interest rate of 4.54%, due May 31, 2042. The notes are unsecured obligations of Maine Water. Interest is payable quarterly in arrears on the 20th day of January, April, July and October of each year. The promissory note contains customary representations and warranties. Under the promissory note, Maine Water is required to comply with certain customary affirmative and negative covenants for as long as the notes are outstanding. The notes are also subject to customary events of default, the occurrence of which may result in all of the notes then outstanding becoming immediately due and payable. Proceeds from the borrowing were received on May 13, 2022.

On June 28, 2022, Connecticut Water entered into a note purchase agreement with certain affiliates of New York Life Insurance Company, pursuant to which Connecticut Water sold an aggregate principal amount of \$25,000 of its 4.71% Senior Notes, Series 2022, due 2052. The closing of the note purchase agreement is expected to occur on December 15, 2022, and is subject to customary closing conditions. The Series 2022 Notes are unsecured obligations of Connecticut Water. Interest is payable semi-annually in arrears on June 15th and December 15th of each year. The note purchase agreement contains customary representations and warranties. Connecticut Water has agreed to customary affirmative and negative covenants for as long as the Series 2022 Notes are outstanding. The Series 2022 Notes are also subject to customary events of default, the occurrence of which may result in all of the Series 2022 Notes then outstanding becoming immediately due and payable.

On July 14, 2022, SJWC entered into a note purchase agreement with certain affiliates of New York Life Insurance, Metropolitan Life Insurance, Northwestern Mutual Life Insurance, and John Hancock Life Insurance (collectively the "Purchasers"), pursuant to which the company will sell an aggregate principal amount of \$70,000 of its 4.85% Senior Notes, Series P ("Series P Notes") to the Purchasers. The Series P Notes are unsecured obligations of SJWC and are due on February 1, 2053. Interest is payable semi-annually in arrears on February 1st and August 1st of each year. The note purchase agreement contains customary affirmative and negative covenants for as long as the Series P Notes are outstanding. The Series P Notes are also subject to customary events of default. The closing is expected to occur in January 2023 upon satisfaction of customary closing conditions.

Note 5. Income Taxes

For the three and nine months ended September 30, 2022, income tax expense was \$223 and \$3,658, respectively. Income tax expense for the three and nine months ended September 30, 2021, was \$2,749 and \$5,159, respectively. The effective consolidated income tax rates were 1% and 13% for the three months ended September 30, 2022 and 2021, respectively, and 8% and 11% for the nine months ended September 30, 2022, and 2021, respectively. The lower effective tax rate for the three and nine months ended September 30, 2022, was primarily due to a tax accounting method change at CTWS regarding the non-network asset repairs deduction.

SJW Group unrecognized tax benefits, before the impact of deductions of state taxes, excluding interest and penalties, of approximately \$8,937 and \$7,961 as of September 30, 2022, and December 31, 2021, respectively. SJW Group does not expect its unrecognized tax benefits to change significantly within the next 12 months.

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On August 16, 2022, the Inflation Reduction Act of 2022 (the “IRA”) was signed into law. SJW Group has considered the income tax implications of the IRA in its estimated tax provision and does not believe it will materially impact the company’s year-end tax rate.

Note 6. Commitments and Contingencies

SJW Group is subject to ordinary routine litigation incidental to its business. There are no pending legal proceedings to which SJW Group or any of its subsidiaries is a party, or to which any of its properties is the subject, that are expected to have a material effect on SJW Group’s business, financial position, results of operations or cash flows.

Note 7. Benefit Plans

SJW Group maintains noncontributory defined benefit pension plans for its eligible employees. SJWC and CTWS employees hired before March 31, 2008, and January 1, 2009, respectively, are entitled to benefits under the pension plans based on the employee’s years of service and compensation. For SJWC employees hired on or after March 31, 2008, benefits are determined using a cash balance formula based upon compensation credits and interest credits for each employee. Certain CTWS employees hired before March 1, 2012, and covered by a plan merged into the CTWS plan in 2013 are also entitled to benefits based on the employee’s years of service and compensation. CTWS employees hired on or after January 1, 2009, are entitled to an additional 1.5% of eligible compensation to their company sponsored savings plan. SJW Group does not have multi-employer plans.

In addition, senior management hired before March 31, 2008, for SJWC and January 1, 2009, for CTWS are eligible to receive additional retirement benefits under supplemental executive retirement plans and retirement contracts. SJWC’s senior management hired on or after March 31, 2008, are eligible to receive additional retirement benefits under SJWC’s Cash Balance Executive Supplemental Retirement Plan. The supplemental retirement plans and Cash Balance Executive Supplemental Retirement Plan are non-qualified plans in which only senior management and other designated members of management may participate. SJW Group also provides health care and life insurance benefits for retired employees under employer-sponsored postretirement benefits that are not pension plans.

The components of net periodic benefit costs for the defined benefit plans and other postretirement benefits for the three and nine months ended September 30, 2022, and 2021 are as follows:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Service cost	\$ 2,652	2,711	\$ 7,956	8,134
Interest cost	2,860	2,556	8,581	7,666
Expected return on assets	(5,044)	(4,748)	(15,132)	(14,242)
Unrecognized actuarial loss	1,182	1,788	3,546	5,362
Amortization of prior service cost	4	12	12	37
Total	<u>\$ 1,654</u>	<u>2,319</u>	<u>\$ 4,963</u>	<u>6,957</u>

In 2022, SJW Group expects to make required and discretionary cash contributions of up to \$7,842 to the pension plans and other postretirement benefits. For the three and nine months ended September 30, 2022, SJW Group has made \$2,577 and \$4,538, respectively, contributions to such plans.

Note 8. Equity Plans

The Incentive Plan allows SJW Group to provide employees, non-employee board members or the board of directors of any parent or subsidiary, consultants, and other independent advisors who provide services to the company or any parent or subsidiary the opportunity to acquire an equity interest in SJW Group. SJW Group also maintains stock plans in connection with its acquisition of CTWS which are no longer granting new stock awards. As of September 30, 2022, 179,848 shares are issuable upon the vesting of outstanding restricted stock units and deferred restricted stock units and an additional 612,738 shares are available for award issuances under the Incentive Plan.

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A summary of compensation costs charged to income and proceeds from the exercise of restricted stock and similar instruments that are recorded to additional paid-in capital and common stock, by award type, are presented below for the three and nine months ended September 30, 2022, and 2021:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Compensation costs charged to income:				
ESPP	\$ 184	176	\$ 369	357
Restricted stock and deferred restricted stock	1,214	954	3,622	2,844
Total compensation costs charged to income	\$ 1,398	1,130	\$ 3,991	3,201
ESPP proceeds	\$ 1,042	1,000	\$ 2,091	2,026

Restricted Stock and Deferred Restricted Stock

For the three months ended September 30, 2022, and 2021, SJW Group granted under the Incentive Plan 1,723 and 1,134, respectively, one year and three year service-based restricted stock awards with a weighted-average grant date fair value of \$62.56 and \$69.20, respectively, per unit. For the nine months ended September 30, 2022, and 2021, SJW Group granted under the Incentive Plan 45,726 and 46,567, respectively, one year and three year service-based restricted stock awards with a weighted-average grant date fair value of \$65.31 and \$64.65, respectively, per unit.

For the three months ended September 30, 2022, and 2021, SJW Group granted under the Incentive Plan 2,193 and 0 target units, respectively, performance-based and market-based restricted stock awards with a weighted-average grant date fair value of \$69.70 and \$0.00, respectively, per unit. For the nine months ended September 30, 2022, and 2021, SJW Group granted under the Incentive Plan 35,846 and 30,641 target units, respectively, performance-based and market-based restricted stock awards granted with a weighted-average grant date fair value of \$70.31 and \$66.33, respectively, per unit. Based upon actual attainment relative to the target performance metric, the number of shares issuable can range between 0% to 150% of the target number of shares for performance-based restricted stock awards, or between 0% and 200% of the target number of shares for market-based restricted stock awards.

As of September 30, 2022, the total unrecognized compensation costs related to restricted and deferred restricted stock plans amounted to \$5,660. This cost is expected to be recognized over a weighted-average period of 1.78 years.

Employee Stock Purchase Plan

SJW Group's recorded expenses for its ESPP were \$94 and \$276 for the three and nine months ended September 30, 2022, respectively, and \$91 and \$265 for the three and nine months ended September 30, 2021, respectively. The total unrecognized compensation costs related to the semi-annual offering period that ends January 31, 2023, for the ESPP is approximately \$131. This cost is expected to be recognized during the fourth quarter of 2022 and first quarter of 2023.

Note 9. Segment and Non-Tariffed Business Reporting

SJW Group is a holding company with five subsidiaries: (i) SJWC, a water utility operation with both regulated and non-tariffed businesses, (ii) CLWSC, a regulated water utility located in Canyon Lake, Texas, and its consolidated non-tariffed variable interest entity, Acequia Water Supply Corporation, (iii) SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., which operated commercial building rentals, (iv) SJWNE LLC a holding company for CTWS and its subsidiaries, The Connecticut Water Company, The Maine Water Company, New England Water Utility Services, Inc. and Chester Realty, Inc., and (v) SJWTX Holdings, Inc. which was formed for the purpose of effecting a corporate reorganization of the water utility operations in Texas. In accordance with FASB ASC Topic 280 - "Segment Reporting," SJW Group's reportable segments have been determined based on information used by the chief operating decision maker. SJW Group's chief operating decision maker includes the Chairman, President and Chief Executive Officer, and his executive staff. The first segment is providing water utility and utility-related services to its customers through SJW Group's subsidiaries, SJWC, Connecticut Water, CLWSC, Maine Water, and NEWUS together referred to as "Water Utility Services." The second segment is property management and investment activity conducted by SJW Land Company and Chester Realty, Inc., referred to as "Real Estate Services."

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The following tables set forth information relating to SJW Group’s reportable segments and distribution of regulated and non-tariffed business activities within the reportable segments. Certain allocated assets, such as goodwill, revenue and expenses have been included in the reportable segment amounts. Other business activity of SJW Group not included in the reportable segments is included in the “All Other” category.

For Three Months Ended September 30, 2022

	Water Utility Services		Real Estate Services	All Other (1)	SJW Group		Total
	Regulated	Non-tariffed	Non-tariffed	Non-tariffed	Regulated	Non-tariffed	
Operating revenue	\$ 171,044	3,463	1,474	—	171,044	4,937	175,981
Operating expense	134,739	2,092	975	573	134,739	3,640	138,379
Operating income (loss)	36,305	1,371	499	(573)	36,305	1,297	37,602
Net income (loss)	29,176	(10)	367	(4,499)	29,176	(4,142)	25,034
Depreciation and amortization	24,919	84	302	224	24,919	610	25,529
Interest on long-term debt and other interest expense	9,111	—	—	5,079	9,111	5,079	14,190
Provision (benefit) for income taxes	103	392	128	(400)	103	120	223
Assets	\$ 3,498,396	5,302	43,017	57,989	3,498,396	106,308	3,604,704

For Three Months Ended September 30, 2021

	Water Utility Services		Real Estate Services	All Other (1)	SJW Group		Total
	Regulated	Non-tariffed	Non-tariffed	Non-tariffed	Regulated	Non-tariffed	
Operating revenue	\$ 162,352	3,168	1,403	—	162,352	4,571	166,923
Operating expense	129,915	2,156	956	122	129,915	3,234	133,149
Operating income (loss)	32,437	1,012	447	(122)	32,437	1,337	33,774
Net income (loss)	20,625	879	294	(2,730)	20,625	(1,557)	19,068
Depreciation and amortization	23,209	113	292	223	23,209	628	23,837
Interest on long-term debt and other interest expense	8,805	—	—	4,730	8,805	4,730	13,535
Provision (benefit) for income taxes	3,537	280	100	(1,168)	3,537	(788)	2,749
Assets	\$ 3,352,976	7,141	44,629	64,995	3,352,976	116,765	3,469,741

For Nine Months Ended September 30, 2022

	Water Utility Services		Real Estate Services	All Other (1)	SJW Group		Total
	Regulated	Non-tariffed	Non-tariffed	Non-tariffed	Regulated	Non-tariffed	
Operating revenue	\$ 435,823	9,305	4,196	—	435,823	13,501	449,324
Operating expense	355,620	7,868	2,799	2,444	355,620	13,111	368,731
Operating income (loss)	80,203	1,437	1,397	(2,444)	80,203	390	80,593
Net income (loss)	51,656	441	998	(12,766)	51,656	(11,327)	40,329
Depreciation and amortization	73,888	2,821	903	730	73,888	4,454	78,342
Interest on long-term debt and other interest expense	27,676	—	—	14,484	27,676	14,484	42,160
Provision (benefit) for income taxes	4,844	398	341	(1,925)	4,844	(1,186)	3,658
Assets	\$ 3,498,396	5,302	43,017	57,989	3,498,396	106,308	3,604,704

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	For Nine Months Ended September 30, 2021							
	Water Utility Services		Real Estate Services	All Other (1)		SJW Group		Total
	Regulated	Non-tariffed	Non-tariffed	Non-tariffed	Regulated	Non-tariffed		
Operating revenue	\$ 421,985	7,897	4,067	—	421,985	11,964	433,949	
Operating expense	343,965	5,467	2,718	2,307	343,965	10,492	354,457	
Operating income (loss)	78,020	2,430	1,349	(2,307)	78,020	1,472	79,492	
Net income (loss)	46,909	2,278	913	(7,641)	46,909	(4,450)	42,459	
Depreciation and amortization	68,913	332	872	670	68,913	1,874	70,787	
Interest on long-term debt and other interest expense	25,323	—	—	15,332	25,323	15,332	40,655	
Provision (benefit) for income taxes	8,001	665	305	(3,812)	8,001	(2,842)	5,159	
Assets	\$ 3,352,976	7,141	44,629	64,995	3,352,976	116,765	3,469,741	

(1) The “All Other” category for the nine months ended September 30, 2022, includes the accounts of SJW Group, SJWNE LLC, CTWS and SJWTX Holdings, Inc. on a stand-alone basis. SJWTX Holdings, Inc. had no activity for the nine months ended September 30, 2022. For the nine months ended September 30, 2021, “All Other” category includes the accounts of SJW Group, SJWNE LLC and CTWS on a stand-alone basis.

(2) As of September 30, 2022 and December 31, 2021, the Company has performed an allocation of goodwill associated with the acquisition of CTWS to two reporting units, Connecticut and Maine, which are both aggregated within the Regulated Water Utility Services reportable segment.

Note 10. Subsequent Event

The CPUC approved the settlement of SJWC’s General Rate Case Application No. 21-01-003 (“2022 GRC”) on October 6, 2022 and issued Decision No. 22-10-005 (“2022 GRC Decision”) on October 11, 2022. SJWC received authority for an increase of \$25,074 or 6.03% in 2022, \$12,955 or 2.94% in 2023, and \$16,102 or 3.56% in 2024. The application included requests to recover \$18,174 from balancing and memorandum accounts and authorization for a \$350,000 capital budget. Additionally, it further aligns authorized and actual consumption, particularly for business customers, addresses the water supply mix variability, and provides greater revenue recovery in the fixed charge. The 2022 approved revenue increase is effective retrospectively to January 1, 2022. SJWC will be filing advice letters to implement new rates and to recover interim revenue and balancing and memorandum accounts in accordance with the 2022 GRC Decision.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollar amounts in thousands, except per share amounts and otherwise noted)

The information in this Item 2 should be read in conjunction with the financial information and the notes thereto included in Item 1 of this Form 10-Q and the condensed consolidated financial statements and notes thereto and the related “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in SJW Group’s Annual Report on Form 10-K for the year ended December 31, 2021.

This report contains forward-looking statements within the meaning of the federal securities laws relating to future events and future results of SJW Group and its subsidiaries that are based on current expectations, estimates, forecasts, and projections about SJW Group and its subsidiaries and the industries in which SJW Group and its subsidiaries operate and the beliefs and assumptions of the management of SJW Group. Actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors. For more information about such forward-looking statements, including some of the factors that may affect our actual results, please see our disclosures under “Forward-Looking Statements,” and elsewhere in this Form 10-Q, including Part II, Item 1A under “Risk Factors.”

General:

SJW Group is a holding company with five wholly-owned subsidiaries: San Jose Water Company (“SJWC”), SJWNE LLC, SJWTX, Inc., SJW Land Company, and SJWTX Holdings, Inc.

SJWC is a public utility in the business of providing water service to approximately 232,000 connections that serve a population of approximately one million people in an area comprising approximately 139 square miles in the metropolitan San Jose, California area. The principal business of SJWC consists of the production, purchase, storage, purification, distribution, wholesale, and retail sale of water. SJWC provides water service to customers in portions of the cities of San Jose and Cupertino and in the cities of Campbell, Monte Sereno, and Saratoga and the Town of Los Gatos, and adjacent unincorporated territories, all in the County of Santa Clara in the State of California. SJWC distributes water to customers in accordance with accepted water utility methods which include pumping from storage and gravity feed from high elevation reservoirs. SJWC also provides non-tariffed services under agreements with municipalities and other utilities. These non-tariffed services include water system operations, maintenance agreements, and antenna site leases.

SJWC has utility property including land held in fee, impounding reservoirs, diversion facilities, wells, distribution storage, and all water facilities, equipment, office buildings and other property necessary to serve its customers. Under Section 851 of the California Public Utilities Code, properties currently used and useful in providing utilities services cannot be disposed of unless California Public Utilities Commission (“CPUC”) approval is obtained.

SJWC also has approximately 234 acres of nonutility property which has been identified as no longer used and useful in providing utility services. The majority of the properties are located in the hillside areas adjacent to SJWC’s various watershed properties.

SJWNE LLC is the holding company for Connecticut Water Service, Inc. (“CTWS”). CTWS, headquartered in Connecticut, serves as a holding company for water utility companies providing water service to approximately 141,000 connections that serve a population of approximately 460,000 people in 81 municipalities throughout Connecticut and Maine and more than 3,000 wastewater connections in Southbury, Connecticut. The subsidiaries held by CTWS that provide utility water services are The Connecticut Water Company (“Connecticut Water”) and The Maine Water Company (“Maine Water”). The remaining two CTWS subsidiaries are Chester Realty, Inc., a real estate company in Connecticut, and New England Water Utility Services, Inc. (“NEWUS”), which provides contract water and sewer operations and other water related services.

The properties of CTWS’s subsidiaries consist of land, easements, rights (including water rights), buildings, reservoirs, standpipes, dams, wells, supply lines, water treatment plants, pumping plants, transmission and distribution mains and other facilities and equipment used for the collection, purification, storage and distribution of water throughout Connecticut and Maine. In certain cases, Connecticut Water and Maine Water are or may be a party to limited contractual arrangements for the provision of water supply from neighboring utilities.

SJWTX, Inc., doing business as Canyon Lake Water Service Company (“CLWSC”), is a public utility in the business of providing water service to approximately 25,000 connections that serve approximately 76,000 people and approximately 900 wastewater connections. CLWSC’s service area comprises more than 267 square miles in Bandera, Blanco, Comal, Hays, Kendall, Medina and Travis County in the growing region between San Antonio and Austin, Texas. SJWTX, Inc. holds a 25% equity interest in Acequia Water Supply Corporation. Acequia has been determined to be a variable interest entity within the scope of ASC Topic 810 with SJWTX, Inc. as the primary beneficiary. As a result, Acequia has been consolidated with SJWTX, Inc. SJWTX, Inc is undergoing a corporate reorganization to separate regulated operations from non-tariffed

activities. In November 2021, SJWTX Holdings, Inc. (“SJWTX Holdings”) and Texas Water Operation Services LLC (“TWOS”) were formed for the purpose of effecting a corporate reorganization of our water services organization in Texas. TWOS was created for non-tariffed operations and is wholly-owned by SJWTX Holdings. SJWTX Holdings is a wholly-owned subsidiary of SJW Group, incorporated to hold the investments in SJWTX, Inc. and TWOS. In addition, SJWTX Holdings intends to create a new subsidiary to hold future wholesale water supply assets prior to the end of 2022.

SJW Land Company and Chester Realty, Inc. own undeveloped land and operate commercial buildings in Tennessee, California and Connecticut. SJW Land Company and Chester Realty, Inc. owned the following real properties during the nine months ended September 30, 2022:

Description	Location	Acreage	Square Footage	% for Nine months ended September 30, 2022 of Real Estate Services	
				Revenue	Expense
Warehouse building	Knoxville, Tennessee	30	361,500	52 %	43 %
Commercial building	Knoxville, Tennessee	15	135,000	47 %	56 %
Undeveloped land and parking lot	Knoxville, Tennessee	10	N/A	N/A	N/A
Undeveloped land	San Jose, California	101	N/A	N/A	N/A
Commercial building	Clinton, CT	22	9,000	1 %	1 %
Commercial building	Guilford, CT	1	1,300	— %	— %

Business Strategy for Water Utility Services:

SJW Group focuses its business initiatives in three strategic areas:

- (1) Regional regulated water utility operations;
- (2) Regional non-tariffed water utility related services provided in accordance with the guidelines established by the CPUC in California, the Public Utilities Regulatory Authority (“PURA”) in Connecticut, the Public Utilities Commission of Texas (“PUCT”) in Texas, and the Maine Public Utilities Commission (“MPUC”) in Maine; and
- (3) Out-of-region water and utility related services.

As part of our pursuit of the above three strategic areas, we consider from time to time opportunities to acquire businesses and assets. However, we cannot be certain we will be successful in identifying and consummating any strategic business combination or acquisitions relating to such opportunities. In addition, the execution of our business strategy will expose us to different risks than those associated with the current utility operations. We expect to incur costs in connection with the execution of this strategy and any integration of an acquired business could involve significant costs, the assumption of certain known and unknown liabilities related to the acquired assets, the diversion of management’s time and resources, the potential for a negative impact on our financial position and operating results, entering markets in which we have no or limited direct prior experience and the potential loss of key employees of any acquired company. Any strategic combination or acquisition we decide to undertake may also impact our ability to finance our business, affect our compliance with regulatory requirements, and impose additional burdens on our operations. Any businesses we acquire may not achieve sales, customer growth and projected profitability that would justify the investment. Any difficulties we encounter in the integration process, including the integration of controls necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and adversely affect our internal controls. SJW Group cannot be certain that any transaction will be successful or that it will not materially harm operating results or our financial condition.

Real Estate Services:

SJW Group’s real estate investment activity is conducted through SJW Land Company and Chester Realty, Inc. As noted above, SJW Land Company owns undeveloped land and operates commercial buildings in Tennessee. Chester Realty, Inc. owns and operates land and commercial buildings in Connecticut. SJW Land Company and Chester Realty, Inc. manage income producing and other properties until such time a determination is made to reinvest proceeds from the sale of such properties.

Critical Accounting Policies:

The discussion and analysis of our financial condition and results of operations is based on the accounting policies used and disclosed in our 2021 consolidated financial statements and accompanying notes that were prepared in accordance with

accounting principles generally accepted in the United States of America and included as part of our annual report on Form 10-K for the year ended December 31, 2021, that was filed with the Securities and Exchange Commission on February 28, 2022.

Our critical accounting policies are described in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the year ended December 31, 2021. Our significant accounting policies are described in our notes to the 2021 Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2021. There have been no changes to our critical or significant accounting policies during the three months ended September 30, 2022.

Results of Operations:

Water sales are seasonal in nature and influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by customers to vary significantly. Due to the seasonal nature of the water business, the operating results for interim periods are not indicative of the operating results for a 12-month period. Revenue is generally higher in the warm, dry summer months when water usage and sales are greater, and lower in the winter months when cooler temperatures and increased rainfall curtail water usage and sales.

Overview

SJW Group’s consolidated net income for the three months ended September 30, 2022, was \$25,034, an increase of \$5,966, or approximately 31%, from \$19,068 for the same period in 2021. Consolidated net income for the three months ended September 30, 2022 includes a one-time impact of \$355 related to SJWC’s Order Instituting Investigation settlement expenses. SJW Group’s consolidated net income for the nine months ended September 30, 2022, was \$40,329, a decrease of \$2,130, or approximately 5%, from \$42,459 for the same period in 2021. Consolidated net income in 2022 includes a gain on the sale of nonutility property of \$5,072, offset by the one-time impacts of \$2,200 related to depreciation on certain Cupertino concession assets and \$1,196 related to SJWC’s Order Instituting Investigation settlement expenses and certain true-ups of deferred taxes and acquisition related tax expenses.

Operating Revenue

	Operating Revenue by Segment			
	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Water Utility Services	\$ 174,507	165,520	\$ 445,128	429,882
Real Estate Services	1,474	1,403	4,196	4,067
	<u>\$ 175,981</u>	<u>166,923</u>	<u>\$ 449,324</u>	<u>433,949</u>

The change in consolidated operating revenues was due to the following factors:

	Three months ended September 30, 2022 vs. 2021		Nine months ended September 30, 2022 vs. 2021	
	Increase/(decrease)		Increase/(decrease)	
Water Utility Services:				
Consumption changes (including unbilled utility revenue)	\$ (4,256)	(3)%	\$ (9,085)	(2)%
Increase in customers	842	1 %	3,723	1 %
Rate increases	9,485	6 %	22,172	5 %
Texas winter storm customer credits	838	— %	838	— %
Balancing and memorandum accounts				
Monterey Water Revenue Adjustment Mechanism (“MWRAM”)	1,019	1 %	2,047	1 %
Water Conservation Memorandum Account (“WCMA”)	3,868	2 %	2,768	1 %
Other	184	— %	1,011	— %
Other regulatory mechanisms	(2,967)	(2)%	(8,466)	(2)%
Other	(26)	— %	239	— %
Real Estate Services	71	— %	128	— %
	<u>\$ 9,058</u>	<u>5 %</u>	<u>\$ 15,375</u>	<u>4 %</u>

Operating Expense

	Operating Expense by Segment			
	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Water Utility Services	\$ 136,831	132,071	\$ 363,488	349,432
Real Estate Services	975	956	2,799	2,718
All Other	573	122	2,444	2,307
	<u>\$ 138,379</u>	<u>133,149</u>	<u>\$ 368,731</u>	<u>354,457</u>

The change in consolidated operating expense was due to the following factors:

	Three months ended September 30, 2022 vs. 2021		Nine months ended September 30, 2022 vs. 2021	
	Increase/(decrease)		Increase/(decrease)	
Water production expenses:				
Change in surface water use	\$ (1,794)	(1)%	\$ (5,445)	(2)%
Change in usage and new customers	(6,044)	(5)%	(13,267)	(4)%
Purchased water and groundwater extraction charge, energy price change and other production expenses, net	9,250	7 %	20,381	6 %
Balancing and memorandum accounts cost recovery	87	— %	1,257	1 %
Total water production expenses	1,499	1 %	2,926	1 %
Administrative and general	756	1 %	4,387	1 %
Balance and memorandum account cost recovery	440	— %	2,055	1 %
Maintenance	696	1 %	1,430	— %
Property taxes and other non-income taxes	229	— %	1,453	1 %
Depreciation and amortization	1,692	1 %	7,555	2 %
Gain on sale of nonutility properties	(82)	— %	(5,532)	(2)%
	<u>\$ 5,230</u>	<u>4 %</u>	<u>\$ 14,274</u>	<u>4 %</u>

Sources of Water Supply

SJWC's water supply consists of imported water purchased from the Santa Clara Valley Water District ("Valley Water") under the terms of a master contract with Valley Water expiring in 2051, groundwater from wells, surface water from watershed run-off and diversion, and reclaimed water. Surface water is the least expensive source of water. Changes and variations in quantities from each of these sources affect the overall mix of the water supply, thereby affecting water supply cost. In addition, the water rate for purchased water and the groundwater extraction charge may be increased by Valley Water at any time. If an increase occurs, then SJWC would file an advice letter with the CPUC seeking authorization to increase customer rates to offset the cost increase. Such water supply cost and rate changes are expected to be mitigated in the future as a result of the water cost balancing account adopted in SJWC's general rate case decision on October 6, 2022.

We are currently experiencing a severe drought in California that is expected to have a significant impact on the sources of our water supply. On October 1, 2022, Valley Water's 10 reservoirs were at approximately 17% of total capacity with 9,277 million gallons of water in storage, which is 40% of the twenty-year average for this date. Valley Water's largest reservoir, Anderson, remains drained for a dam seismic retrofit project. As reported by Valley Water, there was 0.51 inches of rainfall in San Jose during the current annual rainfall season that commenced on July 1, 2022. Rainfall at SJWC's Lake Elzman was measured at 1.68 inches during the current rainfall season compared to the five-year average of 0.04 inches. Under normal hydrologic conditions, state and federal water allocations represent approximately 40% of the Valley Water's total annual water supply. As of October 1, 2022, Valley Water reported that allocations from the State Water Project was 5% or 1,629 million gallons and an additional allocation of human health and safety water has been secured. The U.S. Bureau of Reclamation allocation remains at public health and safety water only. Valley Water reported that its Semitropic groundwater bank reserves are at 80% of capacity or 90,747 million gallons, which can be used to perform water transfers with other state water contractors. Valley Water also reported that the managed groundwater recharge from January to September in the Santa Clara Plain was 112% of the five-year average. The groundwater level in the Santa Clara Plain is approximately 21 feet higher than September 2021. According to Valley Water, the projected total groundwater storage at the end of 2022 is expected to fall within the Normal Stage of Valley Water's Water Shortage Contingency Plan.

On October 1, 2022, SJWC's Lake Elsmar contained 679 million gallons of water, of which approximately 529 million gallons can be released for treatment in water production and to maintain downstream bypass flow regulatory requirements. This Lake Elsmar volume represents 82% of the five-year average. Local surface water is a less costly source of water than groundwater or purchased water and its availability significantly impacts SJWC's results of operations. Typically, SJWC will utilize surface water and additional water from its portfolio of groundwater supplies to supplement imported water from Valley Water. Production from the Montevina Surface Water Treatment Plant through the third quarter was 1,340 million gallons, which is 88% of the five-year average. Through the third quarter of 2022, there was 43 million gallons of water production at SJWC's smaller Saratoga Water Treatment Plant. The Saratoga Water Treatment Plant was taken out of service due to lack of run-off from Saratoga Creek and remains offline. Nonetheless, SJWC believes that its various other water supply sources will be sufficient to meet customer demand through the remainder of 2022.

On June 9, 2021, Valley Water declared a water shortage emergency and asked its retailers to reduce consumption by 15% based on 2019 usage. In response to Valley Water's declaration of drought emergency and call for conservation, SJWC filed with the CPUC to activate Stage 3 of its Rule 14.1 Water Shortage Contingency Plan. Like the most recent drought, the current restrictions center on outdoor water usage which typically accounts for half of a residential customer's consumption. The restrictions include limits on watering days and times, use of potable water for washing structures and other non-porous surfaces except to protect public health and safety, and no outdoor watering during and up to 48 hours after measurable rainfall.

Connecticut Water's water sources vary among the individual systems, but overall approximately 80% of the total dependable yield comes from surface water supplies and 20% from wells. In addition, Connecticut Water has water supply agreements to supplement its water supply with the South Central Connecticut Regional Water Authority and The Metropolitan District that expire 2058 and 2053, respectively.

CLWSC's water supply consists of groundwater from wells and purchased treated and untreated raw water from local water agencies. CLWSC has long-term agreements with the GBRA, which expire in 2037, 2040, 2044 and 2050. The agreements, which are take-or-pay contracts, provide CLWSC with an aggregate of 7,650 acre-feet of water per year from Canyon Lake at prices that may be adjusted periodically by GBRA. CLWSC also has raw water supply agreements with the Lower Colorado River Authority ("LCRA") and West Travis Public Utility Agency ("WTPUA") expiring in 2059 and 2046, respectively, to provide for 350 acre-feet of water per year from Lake Austin and the Colorado River, respectively, at prices that may be adjusted periodically by the agencies. Production wells located in a Comal Trinity Groundwater Conservation District, a regulated portion of the Trinity aquifer, are charged a groundwater pump tax based upon usage.

Water sources at Maine Water vary among the individual systems, but overall approximately 90% of the total dependable yield comes from surface water supplies and 10% from wells. Maine Water has a water supply agreement with the Kennebec Water District expiring in 2040.

The following table presents the change in sources of water supply, in million gallons, for Water Utility Services:

	Three months ended September 30,		Increase/ (decrease)	% of Total Change	Nine months ended September 30,		Increase/ (decrease)	% of Total Change
	2022	2021			2022	2021		
Purchased water	7,098	5,703	1,395	9 %	16,136	15,601	535	1 %
Groundwater	4,870	6,283	(1,413)	(9)%	13,790	16,850	(3,060)	(8)%
Surface water	2,866	3,113	(247)	(2)%	8,153	6,947	1,206	3 %
Reclaimed water	322	341	(19)	— %	694	669	25	— %
	<u>15,156</u>	<u>15,440</u>	<u>(284)</u>	<u>(2)%</u>	<u>38,773</u>	<u>40,067</u>	<u>(1,294)</u>	<u>(4)%</u>

The changes in the source of supply mix were consistent with the changes in the water production expenses.

SJWC's unaccounted-for water on a 12-month-to-date basis for September 30, 2022, and 2021 approximated 8.6% and 6.9%, respectively, as a percentage of total production. The unaccounted-for water estimate is based on the results of past experience and the impact of flows through the system, partially offset by SJWC's main replacements and lost water reduction programs.

CTWS's unaccounted-for water on a 12-month-to-date basis for September 30, 2022, and 2021 was approximately 14.2% and 14.6%, respectively, as a percentage of total production. The unaccounted-for water estimate is based on the results of past experience and the impact of flows through CTWS's systems, unadjusted for any required system flushing, partially offset by Water Infrastructure Conservation Adjustment and Water Infrastructure Surcharge main replacement programs and lost water reduction initiatives.

Water Production Expenses

The change in water production expenses for the three and nine months ended September 30, 2022, compared to the same period in 2021, was primarily attributable to increases in average per unit costs for purchased water, groundwater extraction,

energy charges and other production expenses, offset by a decrease in customer usage and an increase in available surface water for SJWC. Effective July 1, 2022, Valley Water increased the unit price of purchased water by approximately 14% and the groundwater extraction charge by approximately 15%.

Other Operating Expenses

Operating expenses, excluding water production expenses, increased \$3,731 for the three months ended September 30, 2022, compared to the same period in 2021. The increase was primarily attributable to increases of \$1,692 in depreciation and amortization due to increases in utility plant, \$1,196 in administrative and general expenses primarily due to increases in labor, and an increase of \$696 in maintenance expenses.

Operating expenses, excluding water production expenses, increased \$11,348 for the nine months ended September 30, 2022, compared to the same period in 2021. The increase was primarily attributable to increases of \$7,555 in depreciation and amortization due to increases in utility plant and a true up related to Cupertino assets to adjust the useful lives over the concession term, an increase of \$6,442 in administrative and general expenses primarily due to increases in labor and changes in cost recovery balancing and memorandum accounts, an increase of \$1,453 in taxes other than income due to utility plant increases and an increase of \$1,430 in maintenance expenses, partially offset by the gain on sale of vacant land located in California and nonutility property in Texas.

Other (Expense) Income

For the three months ended September 30, 2022, compared to the same period in 2021, the change in other (expense) income was primarily due to an increase in interest on the line of credit resulting from an increase in borrowings and higher short term borrowing rates, partially offset by a reduction in pension non-service cost.

For the nine months ended September 30, 2022, compared to the same period in 2021, the change in other (expense) income was primarily due to the \$3,000 pre-tax gain on sale from the release of a holdback amount by GBRA for the sale of TWA in prior year and a decrease in the return from retirement plan assets, partially offset by a reduction in pension non-service cost.

Provision for Income Taxes

For the three and nine months ended September 30, 2022, compared to the same period in 2021, income tax expense decreased \$2,526 and \$1,501, respectively. The decrease in income tax expense for the three and nine months ended September 30, 2022 was primarily due to discrete tax items and, for the nine months ended September 30, 2022, lower income.

The effective consolidated income tax rates were 1% and 13% for the three months ended September 30, 2022, and 2021, respectively, and 8% and 11% for the nine months ended September 30, 2022, and 2021, respectively. The lower effective rate for the three and nine months ended September 30, 2022, was primarily due to a tax accounting method change at CTWS related to the non-network assets repairs deduction.

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law. SJW Group has considered the income tax implications of the IRA in its estimated tax provision and does not believe it will materially impact the company's year-end tax rate.

Regulation and Rates

Almost all of the operating revenue of SJW Group results from the sale of water at rates authorized by the subsidiaries' respective state utilities commissions. The state utilities commissions set rates that are intended to provide revenue sufficient to recover operating expenses and the opportunity to achieve a specified return on common equity. The timing of rate decisions could have an impact on the results of operations.

Please also see [Note 2](#) of "Notes to Condensed Consolidated Financial Statements."

California Regulatory Affairs

SJWC filed General Rate Case Application No. 21-01-003 ("2022 GRC") on January 4, 2021, requesting authority for an increase of revenue of \$51,585 or 13.35% in 2022, \$16,932 or 3.88% in 2023, and \$19,195 or 4.24% in 2024. The application included requests to recover \$18,499 from balancing and memorandum accounts, authorization for a \$435,000 capital budget, further alignment between actual and authorized usage, and a shift to greater revenue collection in the service charge. Due to the delayed CPUC decision, SJWC was approved for interim rates effective January 1, 2022 via Advice Letter No. 573 on December 30, 2021. The authorization of interim rates allows SJWC to retroactively apply the final decision to January 1, 2022. The interim rates approved were set to equal the present rates in effect to avoid customer confusion and short-term bill changes. SJWC and the Public Advocates Office filed an amended settlement agreement resolving all issues in the proceeding on February 4, 2022, for the CPUC's consideration and adoption. The settlement provides a revenue increase of \$54,131 over the three-year period with an increase of \$25,074 in 2022 and a recovery of \$18,174 from balancing and memorandum accounts. The settlement recognizes the need for continued investments in the water system to deliver safe and reliable water

service, providing authorization of a three-year \$350,000 capital budget. Additionally, it further aligns authorized and actual consumption, particularly for business customers, addresses the water supply mix variability, and provides greater revenue recovery in the fixed charge. The CPUC approved the settlement on October 6, 2022 and issued Decision No. 22-10-005 (“2022 GRC Decision”) on October 11, 2022. SJWC will be filing advice letters to implement new rates and to recover interim revenue and balancing and memorandum accounts in accordance with the 2022 GRC Decision.

On May 3, 2021, SJWC filed Application No. 21-05-004 requesting authority to adjust its cost of capital for the period from January 1, 2022 through December 31, 2024. The request seeks a revenue increase of \$6,418 or 1.61% in 2022. The application also proposes a rate of return of 8.11%, an increase from the current rate of 7.64%, a decrease in the average cost of debt rate from 6.20% to 5.48%, and a return of equity of 10.30%, an increase from the current rate of 8.90%. In addition, the request seeks to adjust SJWC’s currently authorized capital structure of approximately 47% debt and 53% equity to approximately 45% debt and 55% equity. If approved, new rates are expected to be effective in the fourth quarter of 2022.

On December 6, 2019, SJWC filed Application No. 19-12-002 to deploy Advanced Metering Infrastructure (“AMI”) throughout its service area. On August 5, 2021, an all-party settlement agreement was submitted to the CPUC for adoption that would authorize the deployment of AMI outside of the capital budget requested in the 2022 GRC. A final decision approving the settlement agreement was issued on June 10, 2022.

SJWC filed Advice Letter No. 577 on May 24, 2022 to increase revenue requirement by \$24,331 or 5.9% to offset the increases to purchased potable water charges, the groundwater extraction fee, and purchased recycled water charges from its water wholesalers effective July 1, 2022. Advice Letter No. 577 was approved on June 30, 2022.

On October 12, 2022, SJWC filed Advice Letter No. 581 to recover \$18,174 in balancing and memorandum accounts in accordance to the 2022 GRC Decision. This filing is pending before the CPUC.

On October 12, 2022, SJWC filed Advice Letter No. 582 to refund \$19,921 accumulated in its WCMA and its Water Conservation Expense Memorandum Account (“WCEMA”) through August 31, 2022. This refund amount will offset the \$18,174 requested in Advice Letter No. 581 resulting in a net refund to customers of \$1,747. Netting the two balances against each other allows for immediate recovery of the balancing and memorandum accounts and results in less confusion on customer bills. The approvals of both Advice Letter No. 581 and 582 are conditioned on this approach and are pending before the CPUC.

On October 13, 2022, SJWC filed Advice Letter No. 583 to increase revenue requirement by \$25,074 or 6% and implement new water rates in accordance with the 2022 GRC Decision. This filing is anticipated to become effective November 1, 2022, pending the CPUC’s approval.

Connecticut Regulatory Affairs

On October 26, 2021, Connecticut Water filed for a Water Infrastructure Conservation Adjustment (“WICA”) increase of approximately \$21,746 in completed projects. Many of the projects were those that were not considered by PURA in the rate case because of the deadline in the proceeding for pro forma capital additions. On December 22, 2021, PURA approved a WICA surcharge of 2.44% to be added to bills of all Connecticut Water customers, including those of the former The Avon Water Company and The Heritage Village Water Company, effective January 1, 2022 which is expected to generate approximately \$2,581 in additional revenue. On February 14, 2022 Connecticut Water filed its 2021 WICA reconciliation with PURA. The reconciliation, approved by PURA on March 16, 2022 and effective for 12 months beginning April 1, 2022, replaced the expiring 2020 reconciliation surcharge of 0.07% with a credit of 0.02%. As a result, the net WICA surcharge, effective April 1, 2022 was 2.35%.

On February 28, 2022 Connecticut Water filed its 2021 Water Rate Adjustment mechanism (“WRA”). The mechanism reconciles 2021 revenues as authorized in the Company’s most recent rate cases. The 2021 WRA, as approved by PURA on March 30, 2022 and effective for 12 months beginning on April 1, 2022 imposed a 2.85% surcharge on customer bills to collect the 2021 revenue shortfall.

On April 26, 2022, Connecticut Water filed for a WICA increase of \$9,779 in completed projects. PURA approved the Company’s application on June 22, 2022. The cumulative WICA charge as of July 1, 2022 is 3.26%, collecting \$3,448 on an annual basis.

On June 17, 2022, Connecticut Water submitted an application to PURA for the approval to issue unsecured notes in the amount of \$25,000. The notes carry an interest rate of 4.71% and the closing is expected to occur on December 15, 2022. A decision from PURA approving the application was received on August 10, 2022.

Texas Regulatory Affairs

CLWSC filed its 2022 Water Pass Through Charge (“WPC”) true-up report for its Canyon Lake water system on January 31, 2022 with the PUCT under Docket No. 53173. The PUCT modified the WPC formula which resulted in a new usage rate

increasing from \$0.70 to \$0.90 dollars per thousand gallons. The new usage rate was effective March 1, 2022. The true-up report was approved by the PUCT on May 10, 2022 and CLWSC received approval of the new tariff on May 24, 2022.

CLWSC filed its 2022 WPC true-up report for its Kendall West system on June 29, 2022 with the PUCT under Docket No. 53751. CLWSC requested an increase from \$2.39 to \$3.69 per thousand gallons for the WPC. The WPC increased the rate from \$2.39 to \$2.56 per thousand gallons on October 1, 2022.

Maine Regulatory Affairs

The rates approved in the Biddeford Saco division by the April 5, 2022 stipulated agreement, which authorized a rate increase of \$6,313, or 72.5% went into effect on July 1, 2022. The Saco River Drinking Water Resource Center began supplying the water distribution system on June 16, 2022.

On February 28, 2022, Maine Water filed requests for general rate increases in the Camden-Rockland, Freeport, Millinocket and Oakland Divisions. The four filings collectively request \$532 in new revenue and seek to reset the WISC in all four divisions. The four cases, while docketed separately, are proceeding through the adjudication process together. Decisions by the Commission in these filings are expected in the fourth quarter of 2022.

Liquidity:

Cash Flow from Operating Activities

During the nine months ended September 30, 2022, SJW Group generated cash flows from operations of approximately \$129,300, compared to \$100,300 for the same period in 2021. Cash flow from operations is primarily generated by net income from revenue producing activities, adjusted for non-cash expenses for depreciation and amortization, deferred income taxes, stock-based compensation, allowance for equity funds used during construction, gains or losses on the sale of assets, and changes in working capital items. Cash flow from operations increased by approximately \$29,000. This increase was the result of a combination of the following factors: (1) an increase of \$34,200 in regulatory assets primarily due to the recognition of balancing and memorandum accounts, and (2) general working capital and net income, adjusted for non-cash items, increased by \$5,200, offset by (3) payments of amounts previously invoiced and accrued including accrued production costs, decreased by \$4,500, (4) increase of payments for postretirement benefits of \$3,000, and (5) a decrease of \$2,900 from higher accounts receivable balances.

As of September 30, 2022, Water Utility Services' write-offs for uncollectible accounts represented less than 1% of its total revenue, unchanged from September 30, 2021. As of February 1, 2022, the remaining state executive order suspending water service disconnections due to non-payment by customers expired in California. There is no guarantee that the respective state regulators will not reinstate such orders. Management believes that the collection rate for its accounts receivables will gradually return to pre-pandemic levels now that service disconnections are allowable once again to mitigate payment delinquencies. On February 3, 2022, SJWC received \$9,757 through the State of California Water and Wastewater Arrearages Payment Program to relieve outstanding payment delinquencies for customers accounts greater than 60-days past due as of June 30, 2021. Bill credits were applied to customer accounts that remained outstanding and the excess of \$3,272 was returned to the State of California. The financial impact of certain remaining past due accounts are being recorded for future recovery through the rate-making process. There is no guarantee that such recovery will be approved by the respective state regulatory utility commissions.

Cash Flow from Investing Activities

During the nine months ended September 30, 2022, SJW Group used cash flows from investing activities of approximately \$181,500, compared to \$182,900 for the same period in 2021. SJW Group used approximately: (1) \$160,500 of cash for company-funded capital expenditures, (2) \$17,800 for developer-funded capital expenditures, and (3) \$2,400 for utility plant retirements.

Water Utility Services' budgeted capital expenditures for 2022, exclusive of capital expenditures financed by customer contributions and advances, are anticipated to be approximately \$223,000. As of September 30, 2022, approximately \$160,500 or 72% of the \$223,000 has been invested.

Water Utility Services' capital expenditures are incurred in connection with normal upgrading and expansion of existing facilities and to comply with environmental regulations. Over the next five years, Water Utility Services expects to incur approximately \$1,300,000 in capital expenditures, which includes replacement of pipes and mains, and maintaining water systems. A significant portion of this amount is subject to future respective state regulatory utility commissions' approval. Capital expenditures have the effect of increasing utility plant rate base on which Water Utility Services earns a return. Water Utility Services actual capital expenditures may vary from their projections due to changes in the expected demand for services, weather patterns, actions by governmental agencies, and general economic conditions. Total additions to utility plant normally

exceed Company-financed additions as a result of new facilities construction funded with advances from developers and contributions in aid of construction.

The Water Utility Services' distribution systems were constructed during the period from the early 1900's through today. Expenditure levels for renewal and modernization will occur as the components reach the end of their useful lives. In most cases, replacement cost will significantly exceed the original installation cost of the retired assets due to increases in the costs of goods and services and increased regulation.

Cash Flow from Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2022, decreased by approximately \$36,400 from the same period in the prior year, primarily as a result of (1) a decrease in net proceeds of \$157,100 from lower borrowings on long-term debt and increase of payments to long-term debt, (2) a decrease in net proceeds from our common stock equity offering in prior year of \$63,700, (3) an increase of dividends paid to stockholders of \$2,700, offset by (4) an increase in net borrowings and repayments on our lines of credit of \$189,200.

Sources of Capital:

SJW Group's ability to finance future construction programs and sustain dividend payments depends on its ability to maintain or increase internally generated funds and attract external financing. The level of future earnings and the related cash flow from operations is dependent, in large part, upon the timing and outcome of regulatory proceedings.

Short-term Financing Agreements

SJW Group and its subsidiaries have unsecured line of credit agreements where borrowings are used for long-term capital expenditure financing, working capital, and general corporate purposes.

A summary of the line of credit agreements as of September 30, 2022, are as follows:

	<u>Maturity Date</u>	<u>Line Limit</u>	<u>Amounts Outstanding</u>	<u>Unused Portion</u>
Syndicated credit agreement:	August 2, 2027			
SJW Group		\$ 50,000	—	50,000
SJWC		140,000	95,000	45,000
CTWS		90,000	56,000	34,000
SJWTX, Inc.		20,000	1,500	18,500
Total syndicated credit agreement		300,000	152,500	147,500
CTWS credit agreement	December 14, 2023	10,000	6,670	3,330
CTWS credit agreement	May 15, 2025	40,000	40,000	—
		<u>\$ 350,000</u>	<u>199,170</u>	<u>150,830</u>

On August 2, 2022, SJW Group, SJWC, SJWTX, Inc., and CTWS entered into a \$300,000 credit agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as Administrative Agent ("JP Morgan"), Wells Fargo Bank, National Association, as Documentation Agent, and a syndicate of banks. Proceeds of borrowings under the Credit Agreement will be used for refinancing existing debt, working capital, and general corporate purposes. The Credit Agreement has a maturity date of August 2, 2027.

Under the terms of the Credit Agreement, each of SJW Group, SJWC, SJWTX, Inc., and CTWS is a borrower with several and not joint liability. Each borrower has an initial borrowing entitlement, or sublimit, which can be periodically adjusted from time to time as set forth in the Credit Agreement. The initial sublimit of each borrower is as presented in the table above.

Borrowings under the Credit Agreement bear interest at either the Alternative Base Rate (as defined in the Credit Agreement and hereinafter referred to as "ABR") or the Adjusted Term Secured Overnight Financing Rate (as defined in the Credit Agreement and hereinafter referred to as "SOFR"). ABR borrowings (which are borrowings bearing interest at a rate determined by reference to ABR) will bear interest at a rate per annum equal to ABR plus the applicable rate. SOFR borrowings (which are borrowings bearing interest at a rate determined by reference to SOFR) will bear interest at a rate per annum equal to SOFR plus the applicable rate. The applicable rate and pricing is variable depending on credit ratings of the borrower.

The Credit Agreement contains customary representations, warranties and events of default, as well as certain restrictive covenants customary for facilities of this type, including restrictions on indebtedness, liens, asset sales, and fundamental changes. The Credit Agreement also includes a financial covenant that requires each of the borrowers to maintain its funded debt to capitalization ratio at or below 70%.

This Credit Agreement replaces the existing \$140,000 credit agreement, dated April 23, 2021, between SJWC and JP Morgan and the existing \$5,000 credit agreement, dated April 23, 2021, between SJWTX and JP Morgan, with SJW Group as guarantor, both of which were terminated upon entering into the Credit Agreement and were set to mature on December 31, 2023. In addition, on August 2, 2022, CTWS and Citizens Bank, National Association, entered into a fourth modification to the amended and restated revolving credit facility, dated December 18, 2019, as amended, pursuant to which the credit commitment was reduced from \$75,000 to \$10,000.

During the nine months ended September 30, 2022, cost of borrowing on the lines of credit averaged 2.79% compared to 1.34% in the same period in 2021.

All of SJW Group's and subsidiaries lines of credit contain customary representations, warranties and events of default, as well as certain restrictive covenants customary for facilities of this type, including restrictions on indebtedness, liens, acquisitions and investments, restricted payments, asset sales, and fundamental changes. All of the lines of credit also include certain customary financial covenants such as a funded debt to capitalization ratio and a minimum interest coverage ratio. As of September 30, 2022, SJW Group and its subsidiaries were in compliance with all covenants on their lines of credit.

Long-term Financing Agreements

SJW Group and its subsidiaries long-term debt activities are for purposes of refinancing short-term borrowings, long-term capital expenditure financing and working capital, and refinancing of maturing long-term debt.

On April 6, 2022, Maine Water entered into a credit agreement with a commercial bank, pursuant to an existing master loan agreement under which the commercial bank issued Maine Water a promissory note on the same date with an aggregate principal amount of \$15,000 at a fixed interest rate of 4.54%, due May 31, 2042. The notes are unsecured obligations of Maine Water. Interest is payable quarterly in arrears on the 20th day of January, April, July and October of each year. The promissory note contains customary representations and warranties. Under the promissory note, Maine Water is required to comply with certain customary affirmative and negative covenants for as long as the notes are outstanding. The notes are also subject to customary events of default, the occurrence of which may result in all of the notes then outstanding becoming immediately due and payable. Proceeds from the borrowing were received on May 13, 2022.

On June 28, 2022, Connecticut Water entered into a note purchase agreement with certain affiliates of New York Life Insurance Company, pursuant to which Connecticut Water sold an aggregate principal amount of \$25,000 of its 4.71% Senior Notes, Series 2022, due 2052. The closing of the note purchase agreement is expected to occur on December 15, 2022, and is subject to customary closing conditions. The Series 2022 Notes are unsecured obligations of Connecticut Water. Interest is payable semi-annually in arrears on June 15th and December 15th of each year. The note purchase agreement contains customary representations and warranties. Connecticut Water has agreed to customary affirmative and negative covenants for as long as the Series 2022 Notes are outstanding. The Series 2022 Notes are also subject to customary events of default, the occurrence of which may result in all of the Series 2022 Notes then outstanding becoming immediately due and payable.

On July 14, 2022, SJWC entered into a note purchase agreement with certain affiliates of New York Life Insurance, Metropolitan Life Insurance, Northwestern Mutual Life Insurance, and John Hancock Life Insurance (collectively the "Purchasers"), pursuant to which the company will sell an aggregate principal amount of \$70,000 of its 4.85% Senior Notes, Series P ("Series P Notes") to the Purchasers. The Series P Notes are unsecured obligations of SJWC and are due on February 1, 2053. Interest is payable semi-annually in arrears on February 1st and August 1st of each year. The note purchase agreement contains customary affirmative and negative covenants for as long as the Series P Notes are outstanding. The Series P Notes are also subject to customary events of default. The closing is expected to occur in January 2023 upon satisfaction of customary closing conditions.

The debt and credit agreements of SJW Group and its subsidiaries contain various financial and other covenants. Non-compliance with these covenants could result in accelerated due dates and termination of the agreements. In addition, the credit agreements contain customary representations and warranties and are subject to customary events of default, which may result in the outstanding debt becoming immediately due and payable. As of September 30, 2022, SJW Group and its subsidiaries were in compliance with all covenants related to its long-term debt agreements.

Equity Financing Arrangements

On November 17, 2021, SJW Group entered into an equity distribution agreement (the "Equity Distribution Agreement") with J.P. Morgan Securities LLC, Janney Montgomery Scott LLC, RBC Capital Markets, LLC and Wells Fargo Securities, LLC (each a "Sales Agent" and, collectively, the "Sales Agents"), pursuant to which the company may offer and sell shares of its

common stock, \$0.001 par value per share (the “Shares”), from time to time in “at-the-market” offerings, having an aggregate gross sales price of up to \$100,000. Pursuant to the Equity Distribution Agreement, the Shares may be offered and sold through the Sales Agents in transactions that are deemed to be “at-the-market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended, including sales by means of ordinary brokers’ transactions on the New York Stock Exchange or otherwise at market prices prevailing at the time of sale, at prices related to the prevailing market prices or at negotiated prices, in block transactions, or as otherwise agreed upon by the company and the Sales Agents. Proceeds from the sale of the shares under the Equity Distribution Agreement can be used in the financing of acquisitions, infrastructure improvements and other capital expenditures, repayment of debt or other corporate obligations, and working capital over the term of the Equity Distribution Agreement as such needs arise. For the three and nine months ended September 30, 2022, SJW Group issued and sold a total of 47,608 shares of common stock with a weighted average price of \$66.26 per share and received approximately \$3,107 in net proceeds under the Equity Distribution Agreement. Since the inception of the Equity Distribution Agreement, SJW Group has issued and sold 402,723 shares of common stock with a weighted average price of \$69.91 for a total net proceeds of \$27,360 and has a remaining \$71,845 under the Equity Distribution Agreement to issue into shares.

Credit Rating

The condition of the capital and credit markets or the strength of financial institutions could impact SJW Group’s ability to draw on its lines of credit, issue long-term debt, sell its equity or earn interest income. In addition, government policies, the state of the credit markets and other factors could result in increased interest rates, which would increase SJW Group’s cost of capital. While our ability to obtain financing will continue to be a risk, we believe that based on our 2022 and 2021 activities, we will have access to the external funding sources necessary to implement our on-going capital investment programs in the future. The current Standard & Poor’s Rating Service assigned company rating for SJW Group is an A-, with a stable outlook, for SJWC is an A, with a stable outlook, CTWS is an A- with a stable outlook, and Connecticut Water is an A- with a stable outlook.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SJW Group is subject to market risks in the normal course of business, including changes in interest rates, pension plan asset values, and equity prices. The exposure to changes in interest rates can result from the issuance of debt and short-term funds obtained through the company’s variable rate lines of credit. SJWC and Connecticut Water sponsor noncontributory pension and other post-retirement plans for its employees. Pension and other post-retirement costs and the funded status of the plans may be affected by a number of factors including the discount rate, mortality rates of plan participants, investment returns on plan assets, and pension reform legislation.

SJW Group has no derivative financial instruments, financial instruments with significant off-balance sheet risks, or financial instruments with concentrations of credit risk.

ITEM 4. CONTROLS AND PROCEDURES

SJW Group’s management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of SJW Group’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, the “Exchange Act”), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that SJW Group’s disclosure controls and procedures as of the end of the period covered by this report have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by SJW Group in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. SJW Group believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

There has been no change in internal control over financial reporting during the third fiscal quarter of 2022 that has materially affected, or is reasonably likely to materially affect, the internal controls over financial reporting of SJW Group.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

SJW Group is subject to ordinary routine litigation incidental to its business. There are no pending legal proceedings to which SJW Group or any of its subsidiaries is a party, or to which any of its properties is the subject, that are expected to have a material effect on SJW Group's business, financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" in SJW Group's Form 10-K for the year ended December 31, 2021 and our other public filings, which could materially affect our business, financial condition or future results. There has been no material changes from risk factors previously disclosed in "Risk Factors" in SJW Group's Form 10-K for the year ended December 31, 2021 and any Form 10-Q filed after Form 10-K for the quarterly periods in 2022.

ITEM 5. OTHER INFORMATION

Quarterly Dividend

On October 26, 2022, the Board of Directors of SJW Group declared the regular quarterly dividend of \$0.36 per share of common stock. The dividend will be paid on December 1, 2022, to stockholders of record as of the close of business on November 7, 2022.

Information Web Sites

SJW Group posts information about the operating and financial performance of SJW Group and its subsidiaries on its web sites at www.sjwgroup.com, www.sjwater.com, www.ctwater.com, www.sjwtx.com and www.mainewater.com from time to time. The information on our web sites is not a part of and should not be considered incorporated by reference into this Form 10-Q.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	<u>Credit Agreement, dated August 2, 2022, by and among the Company, San Jose Water Company, SJWTX, Inc., Connecticut Water Service Inc., JPMorgan Chase Bank, N.A., and Wells Fargo Bank, National Association. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on August 5, 2022.</u>
10.2	<u>Amendment Letter, effective October 6, 2022, to the Amended and Restated Employment Agreement of Maureen Westbrook. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on October 7, 2022.</u> (2)
10.3	<u>SJW Group Amended and Restated Director Compensation and Expense Reimbursement Policies effective as of January 1, 2023</u> (1)(2)
10.4	<u>Amended and Restated Formulaic Equity Award Program for Non-Employee Board Members effective as of January 1, 2023</u> (1)(2)
31.1	<u>Certification Pursuant to Rule 13a-14(a)/15d-14(a) by Chairman, President and Chief Executive Officer.</u> (1)
31.2	<u>Certification Pursuant to Rule 13a-14(a)/15d-14(a) by Chief Financial Officer and Treasurer.</u> (1)
32.1	<u>Certification Pursuant to 18 U.S.C. Section 1350 by Chairman, President and Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> (1)
32.2	<u>Certification Pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer and Treasurer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> (1)
101.INS	XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File – the cover page XBRL tags are embedded within the Inline XBRL document

(1) Filed currently herewith.

(2) Management contract or compensatory plan or agreement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SJW GROUP

DATE: October 28, 2022

By: /s/ ANDREW F. WALTERS
Andrew F. Walters
Chief Financial Officer and Treasurer
(Principal financial officer)

**AMENDED AND RESTATED DIRECTOR COMPENSATION AND
EXPENSE REIMBURSEMENT POLICIES**

Effective as of January 1, 2023

I. DIRECTOR COMPENSATION.

A. ROLE OF THE EXECUTIVE COMPENSATION COMMITTEE.

The SJW Group Board, through its Executive Compensation Committee, will review, or request management or outside consultants to review, appropriate compensation policies for the directors serving on the Board and its committees. This review may consider board compensation practices of other similar public companies, contributions to Board functions, service as committee chairs, and other appropriate factors.

B. COMPENSATION POLICIES.

1. Annual Retainer.

SJW Group (“SJW”) shall pay the Chairman of its Board who is not employed by SJW or any of its subsidiaries (a “Non-Employee Director”) an annual retainer of \$100,000.

SJW shall pay each of its other Non-Employee Directors an annual retainer of \$75,000. SJW shall also pay an annual retainer of \$15,000 to the SJW Audit Committee Chair, \$12,500 to the SJW Executive Compensation Committee Chair and \$10,000 to each of the other SJW Board Committee Chairs who are each Non-Employee Directors.

SJW shall pay its Lead Independent Director an additional annual retainer of \$25,000.

No additional retainer shall be paid to a Non-Employee Director for serving on a subsidiary board, except that the special independent director who will serve on the board of SJWNE LLC (and will not be serving on the SJW Board) will receive an aggregate annual retainer of \$50,000 for serving on such board and any other subsidiary boards.

2. Board and Committee Meetings Held In Person.

The meeting fees set forth in this section shall be paid to the Non-Employee Directors in connection with SJW Board and SJW Committee meetings held in person.

All Non-Employee Directors of SJW shall be paid \$1,500 for each SJW Board or SJW Committee meeting attended in person, including the SJW strategic planning meeting.

In the event a Non-Employee Director attends an in-person SJW Board or SJW Committee meeting by telephone, he or she shall be entitled to receive the meeting fees set forth above in this section for the first meeting attended by telephone in a calendar year and half of such meeting fees for subsequent meetings attended by telephone in the same calendar year.

3. Board and Committee Meetings Held Telephonically.

The meeting fees set forth in this section shall be paid to Non-Employee Directors in connection with SJW Board and SJW Committee meetings held telephonically.

All Non-Employee Directors of SJW shall be paid \$1,500 for each SJW Board or SJW Committee meeting attended, including the SJW strategic planning meeting.

4. Long-Term Incentive Plan.

Non-Employee Directors may be eligible to participate in SJW's Long-Term Incentive Plan, as amended ("LTIP"), and may also be eligible to participate in programs now or hereafter established thereunder, as more fully set forth in the LTIP and the programs established thereunder.

5. Director Pension Plan.

As more fully set forth in a resolution adopted by SJW's Board of Directors on October 25, 2007 which amends the September 22, 1999 resolution, when a director ceases to be a director of SJW, he or she shall receive a benefit equal to one half of the aggregate annual retainer for service on the Board of Directors of SJW and the Boards of Directors of San Jose Water Company and SJW Land Company as in effect at the time such director ceases to be a director (the "Director Pension Plan"). This benefit will be paid to the director, his beneficiary or his estate, for the number of years the director served on the SJW Board until December 31, 2007 up to a maximum of 10 years. These payments will be made with the same frequency as the ongoing Directors retainers. Only Non-Employee Directors who were on the SJW Board in 2003 and did not elect, in 2003, to have their existing Director Pension Plan benefits converted into deferred restricted stock pursuant to the Deferred Restricted Stock Program participate in the Director Pension Plan. All other Non-Employee Directors are not eligible to participate in the Director Pension Plan.

II. EXPENSE REIMBURSEMENT.

All reasonable expenses incurred by a Non-Employee Director in connection with his or her attendance at an SJW Board Meeting, a subsidiary board meeting, SJW Committee Meeting or other SJW meeting, which shall include the expense of traveling first class for any travel within the United States, shall be reimbursed.

Adopted by the Board and effective as of January 1, 2023

/s/ Willie Brown

Willie Brown, VP, General Counsel, and Corp. Secretary

SJW GROUP

AMENDED AND RESTATED FORMULAIC EQUITY AWARD PROGRAM FOR NON-EMPLOYEE BOARD MEMBERS

I. IMPLEMENTATION

This award program (the “Automatic Grant Program”) is implemented under the SJW Group Long-Term Incentive Plan, as amended and restated on July 29, 2015 and October 28, 2021 (the “Plan”) and shall become effective at the close of business on January 1, 2023, subject to ratification by the Board of Directors (the “Board”) of SJW Group (the “Corporation”).

Unless indicated to the contrary, all capitalized terms in this Automatic Grant Program shall have the meanings assigned to them in the Appendix to the Plan.

II. AWARD TERMS

A. Automatic Grants. The Awards to be made pursuant to the Automatic Grant Program shall be as follows:

1. At the close of business on the date of each annual meeting of the Corporation’s shareholders, beginning with the 2022 Annual Meeting, each individual who is elected or re-elected to serve as a non-employee Board member shall automatically be granted an Award in the form of restricted stock units covering that number of shares of Common Stock (rounded up to the next whole share) determined by dividing the Applicable Annual Amount (as defined below) by the Fair Market Value per share on such date. There shall be no limit on the number of such annual grants any one continuing non-employee Board member may receive over his or her period of Board service, and non-employee Board members who have previously been in the employ of the Corporation (or any Parent or Subsidiary) shall be eligible to receive one or more such annual grants over their period of continued Board service.

2. Each individual who commences service as a non-employee Board member following the date of an annual meeting of the Corporation’s shareholders, but before the date that is two months prior to the next annual meeting of the Corporation’s shareholders (the “New Non-Employee Director”), shall automatically be granted an Award (the “New Non-Employee Director Award”) on the date of commencement of such service in the form of restricted stock units covering that number of shares of Common Stock (rounded up to the next whole share) determined by (i) dividing the Applicable Annual Amount by the Fair Market Value per share on the date of grant of the New Non-Employee Director Award, and (ii) multiplying the number obtained from clause (i) by a fraction, with the numerator being the number of months (with each partial month rounded up to a whole number) elapsed from the date the New Non-Employee Director commenced service to the estimated date of the next annual meeting of the Corporation’s shareholders, and the denominator being twelve (12). Each New Non-Employee Director shall be eligible for an Award pursuant to the terms of paragraph A.1 of this Section as of the next annual meeting following the date the New Non-Employee Director commences service as a non-employee Board member.

3. The Applicable Annual Amount shall be Ninety-Five Thousand Dollars (\$95,000.00) per non-employee Board member for the Awards to be made at each annual meeting of the Corporation’s shareholders, commencing with the 2023 Annual Meeting.

4. Each restricted unit awarded under the Automatic Grant Program shall entitle the non-employee Board member to one share of Common Stock on the applicable vesting date of that unit.

B. Vesting of Awards and Issuance of Shares.

5. Each restricted stock unit award granted under paragraph A.1. of this Section shall vest in full upon the non-employee Board member's continuation in Board service through the date of the first annual shareholders meeting following the annual shareholders meeting at which that restricted stock unit award was made.

6. Each restricted stock unit award granted under paragraph A.2. of this Section shall vest on the one-year anniversary of the date such award was granted, subject to the non-employee Board member's continuation in Board service through such date.

7. In the event that the non-employee Board member (including any New Non-Employee Director) ceases Board service by reason of death or Permanent Disability prior to the vesting date set forth herein, then his or her restricted stock unit award outstanding under the Automatic Grant Program at the time of such cessation of Board service shall immediately vest in full at that time.

8. The shares of Common Stock underlying each restricted stock unit award which vests in accordance with the foregoing vesting provisions shall be issued as soon as administratively practicable following the vesting date, but in no event more than fifteen (15) business days after such vesting date.

C. Dividend Equivalent Rights. None of the restricted stock unit awards granted under the Automatic Grant Program shall include any dividend equivalent rights, and the holder of each restricted stock unit award under the Automatic Grant Program shall not have any shareholder rights with respect to the shares of Common Stock subject to that award until the award vests and the shares of Common Stock are issued to such holder.

D. Retention of Issued Shares. Each non-employee Board member who participates in the Automatic Grant Program shall, with respect to each restricted stock unit award he or she receives under such program, retain beneficial ownership of at least fifty percent (50%) of the shares of Common Stock issued in connection with the vesting of that award until such time as such individual is in compliance with the equity ownership guidelines that the Corporation from time to time establishes for its non-employee Board members. In no event may the non-employee Board member sell or otherwise transfer beneficial ownership of more than fifty percent (50%) of the shares issued to him or her under the Automatic Grant Program unless he or she is at the time of such sale or transfer in full compliance with the equity ownership guidelines in effect at that time for the non-employee Board members.

III. CHANGE IN CONTROL

Should the non-employee Board member continue in Board service until the effective date of an actual Change in Control transaction, then the shares of Common Stock subject to any outstanding restricted stock unit award made to such Board member under the Automatic Grant Program shall, immediately prior to the effective date of that Change in Control transaction, vest in full and shall be issued to him or her as soon as administratively practicable thereafter, but in no event more than fifteen (15) business days after such effective date, or shall otherwise be converted into the right to receive the same consideration per share of Common Stock payable to the other stockholders in the Change in Control and distributed at the same time as such stockholder payments, but in no event later than the later of (i) the close of the calendar year in which such Change in Control is effected or (ii) the fifteenth (15th) day of the third (3rd) calendar month following the effective date of such Change in Control.

CERTIFICATIONS

I, Eric W. Thornburg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SJW Group (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 28, 2022

/s/ ERIC W. THORNBURG

Eric W. Thornburg
Chairman, President and Chief Executive Officer
(Principal executive officer)

CERTIFICATIONS

I, Andrew F. Walters, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SJW Group (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 28, 2022

/s/ ANDREWS F. WALTERS

Andrew F. Walters
Chief Financial Officer and Treasurer
(Principal financial officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SJW Group (the "Company") on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric W. Thornburg, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge on the date hereof:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ERIC W. THORNBURG

Eric W. Thornburg

Chairman, President and Chief Executive Officer

(Principal executive officer)

October 28, 2022

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SJW Group (the "Company") on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew F. Walters, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge on the date hereof:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ANDREW F. WALTERS

Andrew F. Walters
Chief Financial Officer and Treasurer
(Principal financial officer)
October 28, 2022