
**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 June 30, 2020

Commission file number 1-8966

SJW GROUP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0066628
(I.R.S. Employer
Identification No.)

110 West Taylor Street, San Jose, CA
(Address of principal executive offices)

95110
(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 August 4, 2020, there were 28,532,903 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;
- climate change and the effects thereof;
- the risk that the benefits expected from the merger of SJW Group and Connecticut Water Service, Inc. (the “Merger”) will not be realized;
- the risk that the integration of Connecticut Water Service, Inc. will be more difficult, time-consuming or expensive than anticipated;
- the outcome of the California Public Utilities Commission’s investigation into the Merger;
- unexpected costs, charges or expenses resulting from the Merger or otherwise;
- our ability to successfully evaluate investments in new business and growth initiatives;
- 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, 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 stock and debt market 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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
REVENUE	\$ 147,209	102,965	\$ 262,963	180,647
OPERATING EXPENSE:				
Production Expenses:				
Purchased water	25,889	26,381	41,823	40,043
Power	3,426	1,493	6,151	2,653
Groundwater extraction charges	18,583	9,100	33,611	15,963
Other production expenses	10,280	5,159	20,373	10,258
Total production expenses	58,178	42,133	101,958	68,917
Administrative and general	17,772	13,408	39,388	25,699
Maintenance	5,334	4,729	11,420	9,054
Property taxes and other non-income taxes	7,102	3,848	14,565	7,976
Depreciation and amortization	22,753	15,101	44,135	30,246
Merger related expenses	—	1,775	—	4,376
Total operating expense	111,139	80,994	211,466	146,268
OPERATING INCOME	36,070	21,971	51,497	34,379
OTHER (EXPENSE) INCOME:				
Interest on long-term debt and other interest expense	(13,180)	(6,714)	(26,464)	(12,505)
Pension non-service cost	(7)	(907)	(52)	(1,828)
Interest income on money market fund	—	2,342	—	4,174
Gain on sale of real estate investments	—	745	—	745
Other, net	1,048	517	1,805	907
Income before income taxes	23,931	17,954	26,786	25,872
Provision for income taxes	4,210	4,192	4,648	6,237
NET INCOME BEFORE NONCONTROLLING INTEREST	19,721	13,762	22,138	19,635
Less net income attributable to the noncontrolling interest	—	224	—	224
SJW GROUP NET INCOME	19,721	13,538	22,138	19,411
Other comprehensive income (loss), net	10	—	(125)	—
SJW GROUP COMPREHENSIVE INCOME	\$ 19,731	13,538	\$ 22,013	19,411
SJW GROUP EARNINGS PER SHARE				
Basic	\$ 0.69	0.48	\$ 0.78	0.68
Diluted	\$ 0.69	0.47	\$ 0.77	0.68
DIVIDENDS PER SHARE	\$ 0.32	0.30	\$ 0.64	0.60
WEIGHTED AVERAGE SHARES OUTSTANDING				
Basic	28,507,940	28,440,221	28,498,649	28,431,764
Diluted	28,683,208	28,526,022	28,678,715	28,516,927

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)

	June 30, 2020	December 31, 2019
ASSETS		
Utility plant:		
Land	\$ 34,929	34,395
Depreciable plant and equipment	3,031,451	2,988,454
Construction in progress	144,429	112,232
Intangible assets	32,826	33,424
	<u>3,243,635</u>	<u>3,168,505</u>
Less accumulated depreciation and amortization	1,004,776	962,019
	<u>2,238,859</u>	<u>2,206,486</u>
Real estate investments	58,023	57,699
Less accumulated depreciation and amortization	14,197	13,597
	<u>43,826</u>	<u>44,102</u>
CURRENT ASSETS:		
Cash and cash equivalents:		
Cash	23,317	12,944
Restricted cash	—	5,000
Accounts receivable:		
Customers, net of allowances for uncollectible accounts	44,880	36,305
Income tax	2,783	8,837
Other	2,043	2,833
Accrued unbilled utility revenue	55,398	40,102
Current regulatory assets, net	5,691	6,472
Other current assets	11,431	9,553
	<u>145,543</u>	<u>122,046</u>
OTHER ASSETS:		
Net regulatory assets, less current portion	132,539	113,945
Investments	13,493	12,928
Goodwill	628,343	628,287
Other	7,374	4,676
	<u>781,749</u>	<u>759,836</u>
	<u>\$ 3,209,977</u>	<u>3,132,470</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)

	June 30, 2020	December 31, 2019
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Stockholders' equity:		
Common stock, \$0.001 par value; authorized 70,000,000 shares; issued and outstanding shares 28,516,705 on June 30, 2020 and 28,456,508 on December 31, 2019	\$ 29	28
Additional paid-in capital	508,098	506,639
Retained earnings	387,003	383,191
Accumulated other comprehensive income	1	126
Total stockholders' equity	895,131	889,984
Long-term debt, less current portion	1,315,979	1,283,597
	2,211,110	2,173,581
CURRENT LIABILITIES:		
Line of credit	146,671	117,209
Current portion of long-term debt	22,354	22,272
Accrued groundwater extraction charges, purchased water and power	26,614	17,211
Accounts payable	24,295	34,886
Accrued interest	12,390	13,140
Accrued payroll	12,064	11,570
Other current liabilities	13,578	18,279
	257,966	234,567
DEFERRED INCOME TAXES	195,116	195,598
ADVANCES FOR CONSTRUCTION	120,808	112,339
CONTRIBUTIONS IN AID OF CONSTRUCTION	288,317	286,035
POSTRETIREMENT BENEFIT PLANS	113,983	108,044
OTHER NONCURRENT LIABILITIES	22,677	22,306
COMMITMENTS AND CONTINGENCIES	—	—
	\$ 3,209,977	3,132,470

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	Noncontrolling Interest	Total Stockholders' Equity
	Number of Shares	Amount					
BALANCES, December 31, 2019	28,456,508	\$ 28	\$ 506,639	\$ 383,191	\$ 126	\$ —	\$ 889,984
Net income	—	—	—	2,417	—	—	2,417
Unrealized loss on investment, net of tax benefit of \$50	—	—	—	—	(135)	—	(135)
Share-based compensation	—	—	251	(43)	—	—	208
Issuance of restricted and deferred stock units	25,781	—	(785)	—	—	—	(785)
Employee stock purchase plan	15,552	—	970	—	—	—	970
Dividends paid (\$0.32 per share)	—	—	—	(9,118)	—	—	(9,118)
BALANCES, March 31, 2020	28,497,841	28	507,075	376,447	(9)	—	883,541
Net income	—	—	—	19,721	—	—	19,721
Unrealized gain on investment, net of tax of \$4	—	—	—	—	10	—	10
Share-based compensation	—	—	1,009	(43)	—	—	966
Issuance of restricted and deferred stock units	18,864	1	14	—	—	—	15
Dividends paid (\$0.32 per share)	—	—	—	(9,122)	—	—	(9,122)
BALANCES, June 30, 2020	28,516,705	\$ 29	\$ 508,098	\$ 387,003	\$ 1	\$ —	\$ 895,131

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Stockholders' Equity
	Number of Shares	Amount					
BALANCES, December 31, 2018	28,404,316	\$ 28	\$ 495,366	\$ 393,918	\$ —	\$ —	\$ 889,312
Net income	—	—	—	5,873	—	—	5,873
Cumulative effect of change in accounting principle, net of tax effect of \$33	—	—	—	97	—	—	97
Share-based compensation	—	—	886	(16)	—	—	870
Issuance of restricted and deferred stock units	14,312	—	(132)	—	—	—	(132)
Employee stock purchase plan	15,932	—	811	—	—	—	811
Common stock issuance cost	—	—	(10)	—	—	—	(10)
Dividends paid (\$0.30 per share)	—	—	—	(8,528)	—	—	(8,528)
BALANCES, March 31, 2019	28,434,560	28	496,921	391,344	—	—	888,293
Net income before noncontrolling interest	—	—	—	13,538	—	224	13,762
Distribution to noncontrolling interest	—	—	—	—	—	(224)	(224)
Share-based compensation	—	—	718	(16)	—	—	702
Issuance of restricted and deferred stock units	7,579	—	(6)	—	—	—	(6)
Dividends paid (\$0.30 per share)	—	—	—	(8,532)	—	—	(8,532)
BALANCES, June 30, 2019	28,442,139	\$ 28	\$ 497,633	\$ 396,334	\$ —	\$ —	\$ 893,995

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
	2020	2019
OPERATING ACTIVITIES:		
Net income	\$ 22,138	19,635
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,608	31,576
Deferred income taxes	(977)	(2,939)
Stock-based compensation	1,260	1,604
Gain on sale of real estate investments	—	(745)
Changes in operating assets and liabilities:		
Accounts receivable and accrued unbilled utility revenue	(23,081)	(11,275)
Accounts payable and other current liabilities	(9,012)	830
Accrued groundwater extraction charges, purchased water and power	9,403	3,931
Tax payable and receivable, and other accrued taxes	5,734	(41)
Postretirement benefits	4,295	1,942
Regulatory assets and liabilities related to balancing and memorandum accounts	(13,903)	6,237
Up-front service concession payment	(5,000)	—
Other noncurrent assets and noncurrent liabilities	(2,881)	(2,194)
Other changes, net	(1,244)	1,196
NET CASH PROVIDED BY OPERATING ACTIVITIES	32,340	49,757
INVESTING ACTIVITIES:		
Additions to utility plant:		
Company-funded	(74,081)	(62,330)
Contributions in aid of construction	(5,044)	(7,800)
Additions to real estate investments	(324)	(137)
Payments to retire utility plant, net of salvage	(1,649)	(3,009)
Proceeds from sale of real estate investments	—	745
NET CASH USED IN INVESTING ACTIVITIES	(81,098)	(72,531)
FINANCING ACTIVITIES:		
Borrowings on line of credit	89,196	66,000
Repayments on line of credit	(59,734)	(111,000)
Long-term borrowings	35,000	80,000
Repayments of long-term borrowings	(1,706)	—
Debt issuance and broker fee costs	(214)	(847)
Dividends paid	(18,240)	(17,060)
Receipts of advances and contributions in aid of construction	11,064	7,836
Refunds of advances for construction	(1,326)	(1,390)
Other changes, net	91	362
NET CASH PROVIDED BY FINANCING ACTIVITIES	54,131	23,901
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,373	1,127
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,944	420,722
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 23,317	421,849
Cash paid during the period for:		
Interest	\$ 30,030	13,332
Income taxes	5	9,581
Supplemental disclosure of non-cash activities:		
Change in accrued payables for construction costs capitalized	(4,166)	2,348
Utility property installed by developers	3,154	(109)

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020
(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 (“GAAP”) 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 “SEC”). The Notes to Consolidated Financial Statements in SJW Group’s 2019 Annual Report on Form 10-K should be read with the accompanying unaudited condensed consolidated financial statements.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” and subsequent amendments. Topic 326 requires measurement and recognition of expected credit losses for financial assets held. ASU 2016-13 was effective for SJW Group in the first quarter of fiscal 2020. The adoption of ASU 2016-13 did not have a material impact on the consolidated financial statements.

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 and sales.

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue from contracts with customers	\$ 142,163	104,299	\$ 247,299	183,227
Alternative revenue programs, net	3,049	(327)	3,553	(2,306)
Other balancing and memorandum accounts revenue, net	553	(2,376)	9,297	(3,009)
Rental income	1,444	1,369	2,814	2,735
	\$ 147,209	102,965	\$ 262,963	180,647

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 Connecticut Water Service, Inc. (“CTWS”), and shares potentially issuable under the Employee Stock Purchase Plan (“ESPP”). For the three months ended June 30, 2020 and 2019, 9,397 and 2,217 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively. For the six months ended June 30, 2020 and 2019, 19,191 and 9,634 anti-dilutive restricted common stock units were excluded from the dilutive earnings per share calculation, respectively.

Utility Plant Depreciation

A portion of depreciation expense is allocated to administrative and general expense. For the three months ended June 30, 2020 and 2019, the amounts allocated to administrative and general expense were \$370 and \$673, respectively. For the six months ended June 30, 2020, and 2019, the amounts allocated to administrative and general expense were \$1,469 and \$1,330, respectively.

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

Note 2. Equity Plans

SJW Group accounts for stock-based compensation based on the grant date fair value of awards issued to employees in accordance with FASB ASC Topic 718 - "Compensation - Stock Compensation," which requires the measurement and recognition of compensation expense based on the estimated fair value of stock-based payment awards.

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. The types of awards included in the Incentive Plan are restricted stock awards, restricted stock units, performance shares, or other share-based awards. As of June 30, 2020, 179,913 shares are issuable upon the exercise of outstanding restricted stock units and deferred restricted stock units and an additional 745,492 shares are available for award issuances under the Incentive Plan. In addition, shares are issued to employees under the company's ESPP.

In connection with the merger with CTWS on October 9, 2019, SJW Group assumed outstanding awards of restricted stock units and deferred share units under the following stock plans: CTWS 2014 Performance Stock Program, CTWS 2004 Performance Stock Program and CTWS 1994 Performance Stock Program (collectively, the "CTWS Plan"). As of June 30, 2020, approximately 101,711 shares are issuable upon the exercise of outstanding restricted stock units and deferred restricted stock units under the CTWS Plan.

Stock compensation costs charged to income are recognized on a straight-line basis over the requisite service period. A summary of compensation costs charged to income and proceeds from the exercise of any 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 six months ended June 30, 2020, and 2019.

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Adjustments to additional paid-in capital and common stock for:				
Compensation costs charged to income:				
ESPP	\$ —	—	\$ 171	143
Restricted stock and deferred restricted stock	1,009	718	1,089	1,461
Total compensation costs charged to income	<u>\$ 1,009</u>	<u>718</u>	<u>\$ 1,260</u>	<u>1,604</u>
ESPP proceeds	<u>\$ —</u>	<u>—</u>	<u>\$ 970</u>	<u>811</u>

Stock, Restricted Stock and Deferred Restricted Stock

For the three months ended June 30, 2020, and 2019, SJW Group granted under the Incentive Plan 14,346 and 9,114, respectively, one year and three year service-based restricted stock awards with a weighted-average grant date fair value of \$60.17 and \$51.69, respectively, per unit.

For the six months ended June 30, 2020, and 2019, SJW Group granted under the Incentive Plan 42,713 and 26,565, respectively, one year and three year service-based restricted stock awards with a weighted-average grant date fair value of \$63.97 and \$51.42, respectively, per unit.

Performance-based and market-based restricted stock awards granted for the three months ended June 30, 2020, and 2019 were 138 and 0 target units, respectively, with a weighted-average grant date fair value of \$66.99 and \$0 respectively, per unit.

Performance-based and market-based restricted stock awards granted for the six months ended June 30, 2020, and 2019 were 24,719 and 30,401 target units, respectively, with a weighted-average grant date fair value of \$72.01 and \$60.46, 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 June 30, 2020, the total unrecognized compensation costs related to restricted and deferred restricted stock plans amounted to \$6,050. This cost is expected to be recognized over a weighted-average period of 2.03 years.

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

Employee Stock Purchase Plan

The ESPP allows eligible employees to purchase shares of SJW Group’s common stock at 85% of the fair value of shares on the purchase date. Under the ESPP, employees can designate up to a maximum of 10% of their base compensation for the purchase of shares of common stock, subject to certain restrictions. A total of 400,000 shares of common stock have been reserved for issuance under the ESPP.

SJW Group’s recorded expenses were \$74 and \$160 for the three and six months ended June 30, 2020, respectively, and \$65 and \$141 for the three and six months ended June 30, 2019, respectively, related to the ESPP. The total unrecognized compensation costs related to the semi-annual offering period that ends July 31, 2020, for the ESPP is approximately \$25. This cost is expected to be recognized during the third quarter of 2020.

Note 3. Real Estate Investments

The major components of real estate investments as of June 30, 2020, and December 31, 2019, are as follows:

	June 30, 2020	December 31, 2019
Land	\$ 14,168	14,168
Buildings and improvements	43,855	43,531
Subtotal	58,023	57,699
Less: accumulated depreciation and amortization	14,197	13,597
Total	\$ 43,826	44,102

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets, ranging from 7 to 39 years. Substantially all of the real estate investments relate to assets that are currently subject to operating leases.

On April 6, 2017, 444 West Santa Clara Street, L.P. sold all of its interest in the commercial building and land the partnership owned and operated. In connection with this sale, the partnership was required to deposit \$750 into an escrow account for estimated repairs to the creek next to the land the partnership sold. On April 22, 2019, all creek repairs were completed and a reimbursement of \$745 was provided to the partnership. SJW Land Company holds a 70% limited partner interest in 444 West Santa Clara Street, L.P. SJW Land Company and the noncontrolling interest recognized a pre-tax gain on the creek reimbursement of \$521 and \$224, respectively, on the transaction.

Note 4. Defined Benefit Plan

SJW Group maintains noncontributory defined benefit pension plans for its eligible employees. San Jose Water Company (“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. Certain 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. 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. 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 other than pension plans.

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

The components of net periodic benefit costs for the defined benefit plans and other postretirement benefits for the three and six months ended June 30, 2020, and 2019 are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Service cost	\$ 2,337	1,479	\$ 4,780	2,958
Interest cost	2,816	2,113	5,720	4,225
Other cost	(4,183)	1,117	(8,303)	2,235
Expected return on assets	1,169	(2,310)	2,668	(4,619)
	\$ 2,139	2,399	\$ 4,865	4,799

The following tables summarize the fair values of plan assets by major categories as of June 30, 2020, and December 31, 2019:

<u>Asset Category</u>	Fair Value Measurements at June 30, 2020			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 6,237	6,237	—	—
Equity securities (a)	146,407	142,839	3,568	—
Fixed income (b)	85,941	31,165	54,776	—
Total	\$ 238,585	180,241	58,344	—

- (a) Actively managed portfolio of equity securities with the goal to exceed the benchmark performance
(b) Actively managed portfolio of fixed income securities with the goal to exceed the benchmark performance

<u>Asset Category</u>	Fair Value Measurements at December 31, 2019			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 11,801	11,801	—	—
Equity securities (a)	157,050	149,265	7,785	—
Fixed income (b)	91,896	31,686	60,210	—
Total	\$ 260,747	192,752	67,995	—

- (a) Actively managed portfolio of equity securities with the goal to exceed the benchmark performance
(b) Actively managed portfolio of fixed income securities with the goal to exceed the benchmark performance

In 2020, SJW Group expects to make required and discretionary cash contributions of up to \$8,594 to the pension plans and Social Welfare Plan. For the three and six months ended June 30, 2020, SJW Group has made no contributions to such plans.

Note 5. Segment and Non-Tariffed Business Reporting

SJW Group is a holding company with four subsidiaries: (i) SJWC, a water utility operation with both regulated and non-tariffed businesses, (ii) SJWTX, Inc. which is doing business as Canyon Lake Water Service Company (“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, and (iv) as of October 9, 2019, SJWNE LLC a holding company for CTWS and its

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

subsidiaries, The Connecticut Water Company (“Connecticut Water”), The Maine Water Company (“Maine Water”), The Heritage Village Water Company (“HVWC”), The Avon Water Company (“Avon Water”), New England Water Utility Services, Inc. (“NEWUS”) and Chester Realty, Inc. In accordance with FASB ASC Topic 280 - “Segment Reporting,” The chief operating decision maker of SJW Group has determined that it has two reportable business segments. The first segment is that of providing water utility and utility-related services to its customers through SJW Group’s subsidiaries, SJWC, Connecticut Water, CLWSC, Maine Water, HVWC, Avon 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.”

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 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, and 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 June 30, 2020						
	Water Utility Services		Real Estate Services	All Other*	SJW Group		
	Regulated	Non-tariffed	Non-tariffed	Non-tariffed	Regulated	Non-tariffed	Total
Operating revenue	\$ 143,072	2,693	1,444	—	143,072	4,137	147,209
Operating expense	107,185	1,759	850	1,345	107,185	3,954	111,139
Operating income (loss)	35,887	934	594	(1,345)	35,887	183	36,070
Net income (loss)	22,236	881	443	(3,839)	22,236	(2,515)	19,721
Depreciation and amortization	22,123	108	298	224	22,123	630	22,753
Senior note and other interest expense	8,289	—	—	4,891	8,289	4,891	13,180
Income tax expense (benefit) in net income	5,449	260	124	(1,623)	5,449	(1,239)	4,210
Assets	\$ 3,079,118	9,913	44,889	76,057	3,079,118	130,859	3,209,977

	For Three Months Ended June 30, 2019						
	Water Utility Services		Real Estate Services	All Other*	SJW Group		
	Regulated	Non-tariffed	Non-tariffed	Non-tariffed	Regulated	Non-tariffed	Total
Operating revenue	\$ 99,773	1,823	1,369	—	99,773	3,192	102,965
Operating expense	75,564	1,356	1,008	3,066	75,564	5,430	80,994
Operating income (loss)	24,209	467	361	(3,066)	24,209	(2,238)	21,971
Net income (loss)	13,662	336	662	(1,122)	13,662	(124)	13,538
Depreciation and amortization	14,698	105	298	—	14,698	403	15,101
Senior note, mortgage and other interest expense	6,170	—	—	544	6,170	544	6,714
Income tax expense (benefit) in net income	4,154	130	220	(312)	4,154	38	4,192
Assets	\$ 1,537,404	6,149	46,510	413,587	1,537,404	466,246	2,003,650

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

	For Six Months Ended June 30, 2020						
	Water Utility Services		Real Estate Services		All Other*	SJW Group	
	Regulated	Non-tariffed	Non-tariffed	Non-tariffed	Regulated	Non-tariffed	Total
Operating revenue	\$ 254,439	5,710	2,814	—	254,439	8,524	262,963
Operating expense	203,202	3,120	1,681	3,463	203,202	8,264	211,466
Operating income (loss)	51,237	2,590	1,133	(3,463)	51,237	260	51,497
Net income (loss)	28,064	2,351	831	(9,108)	28,064	(5,926)	22,138
Depreciation and amortization	42,872	216	600	447	42,872	1,263	44,135
Senior note and other interest expense	16,463	—	—	10,001	16,463	10,001	26,464
Income tax expense (benefit) in net income	6,651	730	256	(2,989)	6,651	(2,003)	4,648
Assets	\$ 3,079,118	9,913	44,889	76,057	3,079,118	130,859	3,209,977

	For Six Months Ended June 30, 2019						
	Water Utility Services		Real Estate Services		All Other*	SJW Group	
	Regulated	Non-tariffed	Non-tariffed	Non-tariffed	Regulated	Non-tariffed	Total
Operating revenue	\$ 174,920	2,992	2,735	—	174,920	5,727	180,647
Operating expense	136,149	2,197	1,899	6,023	136,149	10,119	146,268
Operating income (loss)	38,771	795	836	(6,023)	38,771	(4,392)	34,379
Net income (loss)	19,762	572	980	(1,903)	19,762	(351)	19,411
Depreciation and amortization	29,447	202	597	—	29,447	799	30,246
Senior note and other interest expense	11,390	—	—	1,115	11,390	1,115	12,505
Income tax expense (benefit) in net income	6,230	222	350	(565)	6,230	7	6,237
Assets	\$ 1,537,404	6,149	46,510	413,587	1,537,404	466,246	2,003,650

* The “All Other” category for the six months ended June 30, 2020, includes the accounts of SJW Group, SJWNE LLC and CTWS on a stand-alone basis. For the three months ended June 30, 2019, the “All Other” category includes the accounts of SJW Group and Hydro Sub, Inc. on a stand-alone basis. For the three months ended June 30, 2019, Hydro Sub, Inc. had no recorded revenue or expenses and as of June 30, 2019 held no assets and incurred no liabilities. Hydro Sub, Inc. was a subsidiary created solely to facilitate the merger with CTWS and was dissolved following the completion of merger in October 2019.

Note 6. Long-Term Liabilities and Bank Borrowings

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

Lines of Credit

On April 24, 2020, SJW Group and SJW Land Company entered into a Termination and Payoff agreement with JPMorgan Chase Bank, N.A. as the lender (the “Lender”) to terminate the SJW Group and SJW Land Company \$15,000 credit agreement, effective as of April 29, 2020.

On May 11, 2020, the SJWC entered into a Second Amendment (the “Second Amendment”) to SJWC’s existing \$125,000 credit agreement, dated as of June 1, 2016, with the Lender, as amended by the First Amendment, dated January 12, 2018, (collectively, the “Existing SJWC Credit Agreement”), with the Lender. The Second Amendment amends the existing SJWC Credit Agreement to, among other things, increase the total commitment by \$15,000, from \$125,000 to \$140,000.

Also on May 11, 2020, SJWC entered into a \$50,000 credit agreement (the “New SJWC Credit Agreement”) with the Lender. Proceeds of borrowings under the New SJWC Credit Agreement may be used to refinance existing debt, for working capital, and for general corporate purposes. The New SJWC Credit Agreement has a maturity date of November 11, 2020.

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

Borrowings under the New SJWC Credit Agreement bear interest at either the Alternate Base Rate (“ABR”) or the LIBOR (as defined in the New SJWC Credit Agreement) rate. ABR borrowings (which are borrowings bearing interest at a rate determined by reference to the ABR) will bear interest at a rate per annum equal to (i) the greatest of (a) the prime rate in effect on such day, (b) the federal funds effective rate on such day plus 0.5%, and (c) the adjusted LIBOR rate for a one-month interest period on such day plus 1% plus (ii) the Applicable Rate (as defined in the New SJWC Credit Agreement), which is determined based on a pricing grid that is dependent upon the credit rating of SJWC as determined by either S&P or Moody’s. Eurodollar borrowings under the New SJWC Credit Agreement will bear interest at a rate per annum equal to (i) the adjusted LIBOR rate for the interest period in effect plus (ii) the Applicable Rate.

The New SJWC 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, acquisitions and investments, restricted payments, asset sales, and fundamental changes. The New SJWC Credit Agreement also includes certain financial covenants that require SJWC to maintain a maximum funded debt to capitalization ratio and a minimum interest coverage ratio and to limit SJWC’s maximum consolidated cash balance.

On May 29, 2020, the CTWS entered into a Second Amendment to the CTWS’s existing \$15,000 credit agreement, dated as of August 6, 2014, with the CoBank, ACB (“CoBank”), as amended by the First Amendment, dated October 28, 2015. The Second Amendment amends the prior agreement to, among other things, increase the total commitment by \$25,000, from \$15,000 to \$40,000 and extended the maturity date to May 15, 2025.

Long-Term Debt

On March 12, 2020, Connecticut Water entered into a note purchase agreement with the purchasers listed in the agreement, pursuant to which Connecticut Water sold on the same date an aggregate principal amount of \$35,000 of its 3.51% Senior Notes, due March 12, 2050. The notes are unsecured obligations of Connecticut Water. Interest is payable semi-annually in arrears on March 12th and September 12th of each year. The note purchase agreement contains customary representations and warranties. Under the note purchase agreement, Connecticut 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. The notes have terms and conditions that restrict Connecticut Water from issuing additional debt or paying a dividend to CTWS if such debt or distribution would trigger an event of default. The note purchase agreement also requires Connecticut Water to maintain a debt to capitalization ratio of not more than 60% and an interest coverage ratio at each fiscal quarter end of no less than three-to-one. As of June 30, 2020, Connecticut Water was in compliance with all financial ratio and operational covenants under this note purchase agreement.

On December 19, 2019, Maine Water issued \$5,000 of Series S First Mortgage Bonds to the Maine Municipal Bond Bank through the State Safe Drinking Water Revolving Loan Fund. The Series S bonds mature on October 1, 2039, and carry 1% interest. The Series S First Mortgage Bond covenants are the same as all other First Mortgage Bonds. The proceeds were held as restricted cash by a trustee to be used for pre-approved projects primarily related to preliminary engineering and design work of a water treatment plant in Maine Water’s Biddeford and Saco division. Proceeds were held by a trustee for the bond and until conditions were met. On February 3, 2020, and March 11, 2020, the trustee released proceeds of \$4,114 and \$886, respectively, from the bond. The associated bond indentures and loan agreements contain customary affirmative and negative covenants, including a prohibition on the issuance of indebtedness secured by assets or revenue of Maine Water where the lien is senior to the lien of the bond trustee under the above bonds except as permitted by the bond indentures and related loan and security agreements, a requirement to maintain a debt to capitalization ratio of not more than 65%, required compliance with various financial and operational covenants, and a provision for maturity acceleration upon the occurrence of stated events of default.

Note 7. Fair Value Measurement

The following instruments are not measured at fair value on SJW Group’s condensed consolidated balance sheets as of June 30, 2020, 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 June 30, 2020, approximates their carrying value as reported on the condensed consolidated balance sheets. The fair value of such financial instruments are 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 six months ended June 30, 2020. The fair value of these instruments would be categorized as Level 2 in the fair value hierarchy,

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

with the exception of cash and cash equivalents, which would be categorized as Level 1. The fair value of pension plan assets is discussed in Note 4.

SJW Group has investments in company owned life insurance which are valued at cash surrender value of the policies as reported by the insurer. These contracts are based principally on a referenced pool of investment funds that actively redeem shares, are observable and measurable, and are presented in “Investments” on SJW Group’s consolidated balance sheets. As of June 30, 2020, the value of the company owned life insurance was \$7,282 of which \$3,739 was related to assets to fund CTWS’s supplemental retirement plan agreements. As of December 31, 2019, the value of the company owned life insurance was \$7,086 of which \$3,829 was related to assets to fund CTWS’s supplemental retirement plan agreements. In addition to life insurance contracts, CTWS’s supplemental retirement plan agreements are also funded with a Rabbi Trust.

The following tables summarize the fair values of the Rabbi Trust investment assets to fund CTWS’s additional retirement benefits under the supplemental executive retirement plans and retirement contracts by major categories as of June 30, 2020, and December 31, 2019:

Fair Value Measurements at June 30, 2020				
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 146	146	—	—
Mutual funds	801	801	—	—
Fixed income	2,017	2,017	—	—
Total	\$ 2,964	2,964	—	—

Fair Value Measurements at December 31, 2019				
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 20	20	—	—
Mutual funds	834	834	—	—
Fixed income	2,329	2,329	—	—
Total	\$ 3,183	3,183	—	—

The fair value of SJW Group’s long-term debt was approximately \$1,516,139 and \$1,396,205 as of June 30, 2020, and December 31, 2019, 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 the long-term debt was \$1,338,333 and \$1,305,869 as of June 30, 2020, and December 31, 2019, respectively. The fair value of long-term debt would be categorized as Level 2 in the fair value hierarchy.

Note 8. Regulatory Rate Filings

California Regulatory Affairs

On July 20, 2018, the California Public Utilities Commission (“CPUC”) issued an Order Instituting Investigation (“OII”) No. 18-07-007 concerning SJW Group’s then proposed merger with CTWS. A Scoping Memorandum was issued on September 7, 2018, which identified the issues to be considered in the proceeding as to whether the proposed merger is subject to CPUC approval and to evaluate the merger’s likely impacts within California. On September 14, 2018, SJW Group and SJWC submitted joint comments in response to the issues identified in accordance with the Scoping Memorandum’s adopted schedule, and reply comments were submitted on October 19, 2018. A Public Participation Hearing was held on January 31, 2019. On

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

March 4, 2019, the CPUC suspended this proceeding due to SJW Group's announcement of its intention to file a new merger approval application with the Connecticut Public Utilities Regulatory Authority ("PURA"). On April 3, 2019, SJW Group and CTWS jointly filed a new merger application with PURA. After securing the required approvals from both PURA and the Maine Public Utilities Commission ("MPUC"), SJW Group announced the close of the merger on October 9, 2019, and notified the CPUC accordingly. As of June 30, 2020, the OII is still pending with the CPUC.

On September 14, 2018, the CPUC issued OII No. 18-09-003 to which SJWC was named as Respondent. The OII was to determine whether the company unlawfully overcharged customers over a 30-year period by failing to pro-rate service charges when increases occurred during a billing period, and whether the company double-billed service charges during one billing period when allegedly switching from billing such charges in advance to billing in arrears. The OII resulted from a report by the CPUC's Consumer Protection and Enforcement Division ("CPED"), dated August 16, 2018, recommending an investigation into SJWC's billing practice. CPED calculated a refund obligation of approximately \$2,061 for the years 2014 to 2016 that had been the subject of SJWC's Advice Letter No. 510. CPED calculated a further refund obligation of approximately \$1,990 for the years 1987 to 2013. CPED also asserted that the company double-billed its customers during a billing period when it allegedly converted from billing in advance to billing in arrears, assumed that such double-billing occurred in January 2011, and calculated a refund obligation of approximately \$4,935. The OII notes these estimates and identifies the proper refund amount as an issue in the proceeding. The OII also identifies the CPUC's authority to consider imposing penalties on SJWC in amounts ranging from \$0.5 to \$50 per offense, per day. On July 24, 2019, SJWC and CPED jointly filed a motion for CPUC approval of a Settlement Agreement ("Agreement") over SJWC's past customer billing practices. The Agreement requires the company to pay approximately \$2,100 in customer credits, consisting of \$1,757 for refunds during the period from 1987 to 2011 and an additional \$350 in customer credits to low income water customers, and invest \$5,000 in utility plant that is not allowed an investment return or rate recovery. The Agreement was subject to final approval by the CPUC. A CPUC Presiding Officer's Decision approved the Agreement in December 2019, but an appeal was filed in January 2020 by a group of SJWC customers. A final CPUC decision approving the Agreement and dismissing the appeal was approved on February 27, 2020, and concluded this proceeding. Advice Letter No. 545 was filed on March 13, 2020, requesting authorization to provide refunds to customers. For a typical residential customer with a 3/4-inch meter, the one-time refund will be \$5.52 dollars. This advice letter was approved effective April 12, 2020, and SJWC completed issuing refunds in mid-June 2020.

On June 19, 2019, the CPUC issued its final decision resolving the remaining issues in SJWC's general rate case for 2019. Decision 19-06-010 denied the establishment of a WRAM/SRM and authorized the recovery of the Hydro Generation Research, Development and Demonstration Memorandum Account balance as of September 30, 2016. SJWC filed Advice Letter No. 534 on August 1, 2019, to recover the \$1,243 balance as of September 30, 2017, via a surcharge over a three-year period. The CPUC rejected the advice letter on October 10, 2019, citing an error in the name of the memorandum account and recommended a correction and a new filing for recovery. SJWC filed to correct the record and received the CPUC's decision on April 10, 2020. Advice Letter 548 was filed on April 24, 2020, requesting recovery of \$1,224 via a 36-month surcharge. The adjustment in the memorandum account balance reflected project costs incurred after September 30, 2016, which are not allowable per Decision 19-06-010. This request is pending before the CPUC.

SJWC filed Advice Letter No. 537 with the CPUC requesting authorization to refund the balance in its 2018 Tax Accounting Memorandum Account as required by the general rate case decision on October 18, 2019. On December 3, 2019, Advice Letter 537-A was filed to refund the balance via a one-time surcredit. For a typical residential customer with a 3/4-inch meter, the one-time refund will be \$20.84 dollars per customer. This advice letter was approved effective January 21, 2020, and refunds to customers began on January 27, 2020.

SJWC filed Advice Letter No. 541 on November 20, 2019, with the CPUC requesting authorization to increase its revenue requirement by \$8,600 or 2.28% in 2020 for the first escalation year authorized in our 2018 General Rate Case Decision 18-011-025 which established rates for 2019, 2020, and 2021. This advice letter was approved on December 26, 2019, and new rates became effective January 1, 2020.

On December 6, 2019, SJWC filed Application No. 19-12-002 with the CPUC requesting approval for cost recovery to deploy Advanced Metering Infrastructure throughout its service area. The application seeks revenue increases of \$2,315 or 0.61% in 2021, \$3,960 or 1.04% in 2022, \$2,510 or 0.65% in 2023, and \$341 or 0.09% in 2024 based on current rates in effect. A decision from the CPUC is anticipated in the fourth quarter of 2020.

On January 22, 2020, SJWC, along with three other California water utilities, filed a joint request for a one-year deferment on the Cost of Capital filings which would otherwise be due on May 1, 2020. Postponing the filing one year would alleviate administrative processing costs on the utilities as well as the CPUC staff, and provide relief for both CPUC and utility resources

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

already strained by numerous other proceedings. The request was conditioned on no changes to the current Water Cost of Capital Mechanism in place during the one-year deferment. On March 11, 2020, the CPUC approved the request.

On March 19, 2020, SJWC filed Advice Letter 546 to extend customer protections listed in the company's Disaster Relief Customer Protections and Outreach Plan as required by the CPUC in response to the COVID-19 pandemic. The filing also activated SJWC's Catastrophic Event Memorandum Account ("CEMA") to track costs related to SJWC's response which includes labor and materials, anticipated increase in bad debt from the suspension of shutoffs for non-payment, waived deposits and reconnection fees, and divergence from actual versus authorized usage. The customer protections and CEMA were approved effective March 4, 2020. SJWC anticipates requesting recovery of the COVID-19 pandemic response costs in a future general rate case or other filings.

Connecticut Regulatory Affairs

As of June 30, 2020, Water Infrastructure Conservation Adjustment ("WICA") surcharges for Connecticut Water and Avon Water were 5.75% and 9.31%, respectively. HVWC does not currently have an approved WICA surcharge. On January 28, 2020, Connecticut Water filed a WICA application representing an additional 2.6% surcharge, for a cumulative WICA surcharge of 5.84%. Additionally, on February 7, 2020, Connecticut Water filed its annual WICA reconciliation which called for a 0.09% reduction of the WICA surcharge. On March 25, 2020, PURA approved a net cumulative 5.75% surcharge for Connecticut Water which became effective on customers' bills on April 1, 2020.

On March 3, 2020, Connecticut Water filed an application, Docket No. 20-03-04, with PURA to merge Avon Water and HVWC with and into Connecticut Water. The application is to streamline borrowings, regulatory filings and internal administrative tasks associated with maintaining separate corporate entities. The company has responded to several interrogatories and has attended a hearing on the merger application. Connecticut Water anticipates a final decision on the proceeding in the third quarter of 2020.

On March 12, 2020, PURA issued Docket No. 20-03-15 to establish a State of Emergency Utility Shut-off Moratorium for the COVID-19 pandemic. The moratorium ordered regulated utility companies to refrain from terminating utility service to residential customers, except for safety reasons until August 1, 2020, or until such other time as determined by the PURA. In the same docket, PURA further directed the public service companies to maintain a detailed record of costs incurred and revenues lost as a result of implementing its orders in the docket and may establish a regulatory asset to track incurred costs. Approval for recovery of additional costs incurred and/or revenues lost relating to the COVID-19 pandemic would be considered for recovery in the Connecticut Water's next general rate case proceeding.

Texas Regulatory Affairs

As required, CLWSC submitted on January 27, 2020, its Water Pass-Through Charge ("WPC") true-up report for the Canyon Lake area systems 2019 purchased water costs. The WPC is the annual filing to change the component of CLWSC's water rates for changes in purchased water costs since the last annual true-up report. The changes in the purchased water costs for the Deer Creek Ranch water system resulted in a decrease in the usage charge from \$2.19 dollars to \$2.02 dollars per thousand gallons, and an increase in the monthly base charge of \$3.04 dollars per residential account. The Deer Creek Ranch rate changes became effective October 1, 2019. The 2019 WPC true-up report for the water systems located in the Canyon Lake area resulted in a reduction of the WPC usage rate from \$1.05 dollars to \$0.95 dollars per thousand gallons which became effective on February 1, 2020. The WPC filings for Deer Creek Ranch and the Canyon Lake area were approved by the Public Utilities Commission of Texas ("PUCT") and a new tariff with the WPC rates was issued in May 2020.

In connection with the disaster declaration in Texas, the PUCT issued Order No. 50664-106 to mitigate the impact of the COVID-19 pandemic on residential water utility customers. CLWSC responded to these orders by stopping disconnections for nonpayment of utility bills, and not charging fees for late payment. The PUCT allowed this order to expire on June 13, 2020. The PUCT also issued Accounting Orders under No. 50664-108, which instructs utilities to record the incremental costs and lost revenues from the COVID-19 pandemic in a regulatory tracking account for recovery in future rates. These amounts will be considered by the PUCT for recovery in each utility's next rate application.

Maine Regulatory Affairs

On December 20, 2019, Maine Water filed for a general a rate increase for their Skowhegan Division seeking approximately \$221, or 14.7%, in additional revenue with the MPUC. On June 17, 2020, the MPUC approved a general rate increase for Skowhegan Division customers allowing \$198 in additional revenue. Per the MPUC decision, the increase will be implemented

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

in two steps: an initial 9.80% rate increase effective June 15, 2020, and a 3.51% rate increase effective July 1, 2021. The combined rate increase is 13.31%.

On January 20, 2020, Maine Water filed Water Infrastructure Surcharge (“WISC”) applications with the MPUC in four divisions requesting an increase between 1.76% and 3.00%, representing approximately \$371 in additional revenues. The WISC applications were approved on February 26, 2020, and the surcharges became effective March 1, 2020.

On March 16, 2020, MPUC issued an emergency moratorium on utility disconnection activities in connection to the COVID-19 pandemic. The moratorium directed public utility companies not to engage in any disconnection activities including disconnection notices for all classes of customers until further notice from MPUC. Maine Water is tracking COVID-19 related costs for potential future recovery in rates charged to customers.

Note 9. 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 the 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 (“WRAM”) 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.

Balancing and memorandum accounts are recognized by SJWC when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process. In addition, in the case of special revenue programs such as the Water Conservation Memorandum Account (“WCMA”) and Water Revenue Adjustment (“WRA”), SJWC and CTWS follow the requirements of ASC Topic 980-605-25—“Alternative Revenue Programs” in determining revenue recognition, including the requirement that such revenues will be collected within 24 months of the year-end in which the revenue is recorded. A reserve is recorded for amounts SJW Group estimates will not be collected within the 24-month period. This reserve is based on an estimate of actual usage over the recovery period.

In assessing the probability criteria for balancing and memorandum accounts between general rate cases, SJWC considers evidence that may exist prior to CPUC authorization that would satisfy ASC Topic 980 subtopic 340-25 recognition criteria. Such evidence may include regulatory rules and decisions, past practices, and other facts and circumstances that would indicate that recovery or refund is probable. When such evidence provides sufficient support, the balances are recorded in SJW Group’s consolidated financial statements.

On December 19, 2019, the CPUC denied the recovery of the 2018 WCMA in Advice Letter No. 532 and no longer approved the tracking of WCMA balances. Due to the decision, SJWC believes WCMA tracking no longer meets the probability criteria under ASC Topic 980-605-25. For the three and six months ended June 30, 2019, SJWC recognized regulatory assets of \$1,320 and \$568, respectively, due to lost revenues accumulated in the 2019 WCMA account net of a reserve of \$11 for the estimated amount that will not be collected within the 24-month period, as required by the guidance. 2018 WCMA activity for the three and six months ended June 30, 2019, represents interest and reserve activity on the accumulated balance. For the three and six months ended June 30, 2019, a reserve of \$94 and \$174, respectively, was recorded. The amounts have been reflected in the 2018 WCMA and 2019 WCMA balances shown in the table below.

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

	Three months ended June 30, 2020				Three months ended June 30, 2019			
	Beginning Balance	Regulatory Asset Increase (Decrease)	Refunds (Collections) Adjustments	Ending Balance	Beginning Balance	Regulatory Asset Increase (Decrease)	Refunds (Collections) Adjustments	Ending Balance
Revenue accounts:								
Monterey WRAM	\$ 8,958	1,591	—	10,549	\$ 7,878	2,109	(1,001)	8,986
2014-2017 WCMA	665	—	—	665	6,912	—	(1,597)	5,315
2018 WCMA	—	—	—	—	8,997	(39)	—	8,958
2019 WCMA	—	—	—	—	(752)	1,309	—	557
2012 General Rate Case true-up	752	—	—	752	10,152	—	(2,421)	7,731
Cost of capital memorandum account	(1,558)	(2)	—	(1,560)	(1,532)	(8)	—	(1,540)
Tax memorandum account	332	—	—	332	(6,545)	(40)	—	(6,585)
All others	(2,491)	40	—	(2,451)	(1,629)	(78)	(87)	(1,794)
Total revenue accounts	\$ 6,658	1,629	—	8,287	\$ 23,481	3,253	(5,106)	21,628
Cost-recovery accounts:								
Water supply costs	5,061	838	—	5,899	8,217	(1,058)	(1,247)	5,912
Pension	2,886	99	—	2,985	(1,237)	199	805	(233)
All others	443	1	—	444	1,015	3	(148)	870
Total cost-recovery accounts	\$ 8,390	938	—	9,328	\$ 7,995	(856)	(590)	6,549
Total	\$ 15,048	2,567	—	17,615	\$ 31,476	2,397	(5,696)	28,177
	Six months ended June 30, 2020				Six months ended June 30, 2019			
	Beginning Balance	Regulatory Asset Increase (Decrease)	Refunds (Collections) Adjustments	Ending Balance	Beginning Balance	Regulatory Asset Increase (Decrease)	Refunds (Collections) Adjustments	Ending Balance
Revenue accounts:								
Monterey WRAM	\$ 7,015	3,561	(27)	10,549	\$ 6,847	3,666	(1,527)	8,986
2014-2017 WCMA	708	—	(43)	665	7,750	—	(2,435)	5,315
2018 WCMA	—	—	—	—	9,386	(428)	—	8,958
2019 WCMA	—	—	—	—	—	557	—	557
2012 General Rate Case true-up	752	—	—	752	11,328	96	(3,693)	7,731
Cost of capital memorandum account	(1,553)	(7)	—	(1,560)	(1,523)	(17)	—	(1,540)
Tax memorandum account	(6,643)	(3)	6,978	332	(6,504)	(81)	—	(6,585)
All others	(2,219)	(165)	(67)	(2,451)	(1,735)	72	(131)	(1,794)
Total revenue accounts	\$ (1,940)	3,386	6,841	8,287	\$ 25,549	3,865	(7,786)	21,628
Cost-recovery accounts:								
Water supply costs	4,328	1,605	(34)	5,899	9,617	(1,803)	(1,902)	5,912
Pension	2,449	514	22	2,985	(1,843)	383	1,227	(233)
All others	446	2	(4)	444	1,090	6	(226)	870
Total cost-recovery accounts	\$ 7,223	2,121	(16)	9,328	\$ 8,864	(1,414)	(901)	6,549
Total	\$ 5,283	5,507	6,825	17,615	\$ 34,413	2,451	(8,687)	28,177

As of June 30, 2020, the total balance in SJWC's balancing and memorandum accounts combined, including interest, that has not been recorded into the financial statements was a net under-collection of \$1,759. All balancing accounts and memorandum-type accounts not included for recovery or refund in the current general rate case will be reviewed by the CPUC in SJWC's next

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

general rate case or at the time an individual account balance reaches a threshold of 2% of authorized revenue, whichever occurs first.

Note 10. Regulatory Assets

Regulatory assets are comprised of the following as of June 30, 2020, and December 31, 2019:

	June 30, 2020	December 31, 2019
Regulatory assets:		
Income tax temporary differences, net	\$ 6,500	2,433
Postretirement pensions and other medical benefits	76,439	73,525
Business combinations debt premium, net	23,749	25,020
Balancing and memorandum accounts, net	17,615	5,283
WRA	7,466	9,108
Other, net	6,461	5,048
Total regulatory assets, net in Consolidated Balance Sheets	138,230	120,417
Less: current regulatory asset, net	5,691	6,472
Total regulatory assets, net, less current portion	\$ 132,539	113,945

Note 11. Business Combination

On October 9, 2019, SJW Group completed its previously announced acquisition of CTWS pursuant to the terms of the Second Amended and Restated Agreement and Plan of Merger, dated as of August 5, 2018, by and among SJW Group, Hydro Sub, Inc., a Connecticut corporation and a wholly-owned subsidiary of SJW Group, and CTWS. CTWS provides water service to approximately 138,000 connections that serve a population of approximately 480,000 people in 80 municipalities throughout Connecticut and Maine and more than 3,000 wastewater connections in Southbury, Connecticut. In addition, CTWS has a real estate company in Connecticut which provides property management services.

SJW Group acquired all of the outstanding stock of CTWS for \$70.00 per share in cash (without interest and less any applicable withholding taxes). The total cash purchase price was approximately \$838,476, less cash received of \$3,011, and approximately \$6,384 related to outstanding awards of restricted stock units and deferred share units assumed in connection with the merger. SJW Group financed the acquisition with net proceeds from its December 2018 sale of 7,762,000 shares of common stock of approximately \$411,077, and the October 2019 issuance of \$427,398 in new fixed rate term loans. SJW Group raised an additional \$18,463 in the debt financing to partially finance transaction costs incurred in connection with the CTWS acquisition. Along with the acquisition debt financing, SJW Group raised \$60,000 of new proceeds used to partially refinance certain CTWS short-term borrowings on its existing lines of credit after the CTWS acquisition closed.

Management estimated the preliminary fair values of net tangible and intangible assets acquired and the excess of the consideration transferred over the aggregate of such fair values was recorded as goodwill. The preliminary value of the acquired deferred tax assets and deferred tax liabilities are based on a preliminary analysis, and our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). In addition, management is still gathering information necessary to complete the recognition and measurement of the opening balance sheet.

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
June 30, 2020
(in thousands, except share and per share data)

The following table summarizes the estimated preliminary fair value of assets acquired and liabilities assumed as of June 30, 2020.

	Fair Value
Assets acquired:	
Utility plant, net	\$ 750,703
Nonutility plant	848
Current assets	42,673
Investments	12,489
Regulatory assets and deferred charges, less current portion	83,132
Other intangible assets	17,181
Other assets	2,592
Goodwill	626,548
Total assets acquired	1,536,166
Liabilities assumed:	
Long-term debt	281,009
Current liabilities, including maturities of long-term debt	125,797
Deferred income taxes	107,789
Postretirement benefit plans	31,789
Contributions in aid of construction and construction advances	137,327
Other long-term liabilities	10,607
Total liabilities assumed	694,318
Assumed equity	\$ 841,848

Other intangible assets primarily consists of customer relationships.

The goodwill balance is primarily attributable to assembled workforce and diversification of markets both from a geographic and regulatory perspective. We do not expect the goodwill recognized in connection with the transaction will be deductible for income tax purposes.

Goodwill is not amortized but is tested for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not, reduce the fair value of a reporting unit below its carrying amount. SJW Group first performs a qualitative assessment to determine whether it is necessary to perform the quantitative impairment test. In assessing the qualitative factors, SJW Group considers the impact of these key factors: change in industry and competitive environment, financial performance, macroeconomic conditions, and other relevant Company-specific events. If SJW Group determines that as a result of the qualitative assessment it is more likely than not (> 50% likelihood) that the fair value is less than carrying amount, then a quantitative test is performed.

Note 12. 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 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 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, 2019.

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 Item 1A under “Risk Factors.”

General:

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

SJWC is a public utility in the business of providing water service to approximately 231,000 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, 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 supply 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 411 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, which is a wholly-owned subsidiary of SJW Group, is the holding company for Connecticut Water Service, Inc. (“CTWS”). CTWS became a wholly-owned subsidiary of SJWNE LLC as part of the merger transaction between SJW Group and CTWS that was completed on October 9, 2019. CTWS, headquartered in Connecticut, serves as a holding company for water utility companies providing water service to approximately 138,000 connections that serve a population of approximately 484,000 people in 80 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”), The Heritage Village Water Company (“HVWC”), The Avon Water Company (“Avon Water”) and The Maine Water Company (“Maine Water”). The remaining two 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.

CTWS also offers *Linebacker*, an optional service line protection program offered by CTWS to eligible residential customers through NEWUS in Connecticut and Maine Water in Maine covering the cost of repairs for leaking or broken water service lines which provide drinking water to a customer’s home. For customers who enroll in this program, CTWS will repair or replace a leaking or broken water service line and related equipment. Additionally, NEWUS offers expanded coverage to Connecticut Water customers for failure of in-home plumbing, sewer and septic drainage lines and implemented modified terms and conditions with limitations on certain coverages.

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 19,000 connections that serve approximately 55,000 people. CLWSC’s service area comprises more than 247 square miles in the southern region of the Texas Hill Country in Blanco, Comal, Hays and Travis counties, the growing region between San Antonio and Austin, Texas. SJWTX, Inc. has a 25% interest in Acequia Water Supply Corporation (“Acequia”). The water supply corporation 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.

SJW Land Company owns undeveloped land and operates commercial buildings in Tennessee. SJW Land Company also owns a 70% limited partnership interest in 444 West Santa Clara Street, L.P. which operated a California commercial property that was sold in the second quarter of 2017. The limited partnership has been determined to be a variable interest entity within the scope of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 - “Consolidation” with SJW Land Company as the primary beneficiary, and as a result, has been consolidated with SJW Land Company.

SJW Land Company owned the following real properties during the six months ended June 30, 2020:

Description	Location	Acreage	Square Footage	% for Six months ended June 30, 2020 of SJW Land Company	
				Revenue	Expense
Warehouse building	Knoxville, Tennessee	30	361,500	46%	40%
Commercial building	Knoxville, Tennessee	15	135,000	54%	60%
Undeveloped land and parking lot	Knoxville, Tennessee	10	N/A	N/A	N/A
Undeveloped land	San Jose, California	103	N/A	N/A	N/A

As of June 30, 2020, Chester Realty, Inc. owns less than 100 acres of property in the State of Connecticut.

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 in Connecticut (“PURA”), 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, including the recent CTWS merger which closed on October 9, 2019. 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 SJW Group’s financial position and operating results, entering markets in which SJW Group has 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. As noted above, SJW Land Company owns undeveloped land and operates commercial buildings in Tennessee. SJW Land Company also owns a limited partnership interest in 444 West Santa Clara Street, L.P. The partnership had a commercial building in San Jose, California that was sold in the second quarter of 2017. SJW Land Company manages its income producing and other properties until such time a determination is made to reinvest proceeds from the sale of such properties. Chester Realty, Inc. owns and operates land and commercial buildings in the State of Connecticut. Chester Realty, Inc. manages its income producing and other properties until such time a determination is made to reinvest proceeds from the sale of such properties. SJW Land Company and Chester Realty, Inc.'s real estate investments diversify SJW Group's asset base.

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 2019 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, 2019, that was filed with the SEC on March 2, 2020.

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, 2019. There have been no changes in our critical accounting policies. Our significant accounting policies are described in our notes to the 2019 consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2019.

New Accounting Pronouncements:

In August 2018, the FASB issued Accounting Standards Update ("ASU") 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): "Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans," which aims to improve the overall usefulness of disclosure to financial statement users and reduce unnecessary costs to companies when preparing defined benefit plan disclosures. This update is effective for SJW Group's Form 10-K for the year ending December 31, 2020. Retrospective adoption is required and early adoption is permitted. Management is currently evaluating the effect that the new standard will have on its defined benefit plan disclosures.

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.

Coronavirus ("COVID-19") Update

In 2020, the outbreak of COVID-19 has had significant impact on the global economy. SJW Group has taken precautions to protect the health and safety of employees, customers and the community while continuing to deliver safe and reliable water service as we are deemed to be an essential service provider.

SJW Group's response to the COVID-19 outbreak continues to rapidly evolve and has included: (i) suspending service disconnections for non-payments pursuant to orders from certain state regulators, which will remain in effect over other existing requirements governing disconnections for specified durations with the longest extending to April 2021; (ii) waiving reconnection or facilities fees for affected customers and suspending deposit requirements for affected customers who must reconnect to the systems; (iii) the temporary closure of our walk-in customer payment centers where they were provided; (iv) increasing the number of employees telecommuting; and (v) delaying some capital improvement projects at our water utilities. Although, we do not believe the COVID-19 pandemic has materially adversely affected SJW Group's financial results and business operations for the six months ended June 30, 2020, the full impact of the pandemic is uncertain. SJW Group continues to monitor developments affecting our business, employees and suppliers and will take additional precautions as management believes is necessary.

Overview

SJW Group's consolidated net income for the three months ended June 30, 2020, was \$19,721, an increase of \$6,183, or approximately 46%, from \$13,538 for the same period in 2019. SJW Group's consolidated net income for the six months ended June 30, 2020, was \$22,138, an increase of \$2,727, or approximately 14%, from \$19,411 for the same period in 2019. The increase in net income for the three and six months ended June 30, 2020, was primarily due to addition of net income from the

company's new SJWNE LLC's subsidiary CTWS as a result of the merger and an increase in revenue at SJWC due to increased customer usage and higher average rates, partially offset by an increase in production expenses at SJWC due to a decrease in the use of available surface water and an increase in customer usage, an increase in interest on long-term debt due to the debt issued to acquire CTWS and issuance of SJWC's Series M Note, and an increase in depreciation expense due to assets placed in service in 2019.

Operating Revenue

	Operating Revenue by Segment			
	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Water Utility Services	\$ 145,765	101,596	\$ 260,149	177,912
Real Estate Services	1,444	1,369	2,814	2,735
	<u>\$ 147,209</u>	<u>102,965</u>	<u>\$ 262,963</u>	<u>180,647</u>

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

	Three months ended June 30, 2020 vs. 2019		Six months ended June 30, 2020 vs. 2019	
	Increase/(decrease)		Increase/(decrease)	
Water Utility Services:				
Consumption changes	\$ 8,386	8 %	\$ 14,415	8%
Increase in customers	511	1 %	936	1%
Rate increases	1,566	1 %	5,074	3%
OII customer rate credits	2,200	2 %	2,200	1%
Balancing and memorandum accounts:				
Water Conservation Memorandum Account ("WCMA")	(1,269)	(1)%	(129)	—%
All others	(67)	— %	(505)	—%
SJWNE LLC	32,842	32 %	60,246	33%
Real Estate Services	75	— %	79	—%
	<u>\$ 44,244</u>	<u>43 %</u>	<u>\$ 82,316</u>	<u>46%</u>

Operating Expense

	Operating Expense by Segment			
	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Water Utility Services	\$ 108,944	76,920	\$ 206,322	138,346
Real Estate Services	850	1,008	1,681	1,899
All Other	1,345	3,066	3,463	6,023
	<u>\$ 111,139</u>	<u>80,994</u>	<u>\$ 211,466</u>	<u>146,268</u>

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

	Three months ended June 30, 2020 vs. 2019		Six months ended June 30, 2020 vs. 2019	
	Increase/(decrease)		Increase/(decrease)	
Water production expenses:				
Change in surface water use	\$ 6,673	8 %	\$ 12,110	8 %
Change in usage and new customers	2,912	4 %	8,204	6 %
Purchased water and groundwater extraction charge and energy price increase	1,459	2 %	2,982	2 %
Balancing and memorandum accounts cost recovery	(1,891)	(2)%	(3,403)	(2)%
SJWNE LLC	6,892	8 %	13,148	9 %
Total water production expenses	16,045	20 %	33,041	23 %
Administrative and general	4,264	5 %	13,820	9 %
Balance and memorandum account cost recovery	100	— %	(131)	— %
Maintenance	605	1 %	2,366	2 %
Property taxes and other non-income taxes	3,254	4 %	6,589	5 %
Depreciation and amortization	7,652	9 %	13,889	9 %
Merger related expenses	(1,775)	(2)%	(4,376)	(3)%
	<u>\$ 30,145</u>	<u>37 %</u>	<u>\$ 65,198</u>	<u>45 %</u>

Sources of Water Supply

SJWC's water supply consists of groundwater from wells, surface water from watershed run-off and diversion, reclaimed water, and 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. 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 the cost of the water supply. 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 revenues to offset the cost increase.

On July 1, 2020, Valley Water's 10 reservoirs were approximately 37% of total capacity with 61,462 acre-feet of water in storage, which is 63% of the twenty-year average for this date. As reported by the Valley Water, there was 8.82 inches of rainfall in San Jose during the current annual rainfall season that commenced on July 1, 2019. Rainfall at SJWC's Lake Elsman was measured at 30.26 inches during the current rainfall season. Under normal hydrologic conditions, state and federal water allocations represent approximately 40% of the Valley Water's total annual water supply. As of July 1, 2020, Valley Water reported that allocations from the state and federal water project are approximately 20% and 70%, respectively, of amounts requested in 2020. Valley Water also reported that the managed groundwater recharge from January to June in the Santa Clara Plain was 87% of the five-year average. The groundwater level in the Santa Clara Plain is approximately 19 feet lower than a year ago in June and 7 feet lower than the five-year average. According to Valley Water, the projected total groundwater storage at the end of 2020 is expected to fall within the normal stage of the Valley Water's Water Shortage Contingency Plan.

On July 1, 2020, SJWC's Lake Elsman contained 2,234 acre-feet of water, of which approximately 1,774 acre-feet can be utilized for treatment. This Lake Elsman volume represents 55% of the five-year average which reflects the low winter rainfall we experienced in our Santa Cruz mountains watershed. 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. SJWC will utilize surface water and additional water from its portfolio of groundwater supplies to supplement imported water from the Valley Water. Production from the Montevina Surface Water Treatment Plant through the second quarter was 710 million gallons, which is 43% of the five-year average. Production at SJWC's smaller Saratoga Water Treatment Plant through the second quarter was 111 million gallons, which is 46% of the five-year average. Saratoga Water Treatment Plant was taken out of service during the second quarter due to lack of run-off from Saratoga Creek and remains offline. SJWC believes that its various water supply sources will be sufficient to meet customer demand through the remainder of 2020.

The Connecticut water utility services' infrastructure consists of 65 noncontiguous water systems in the State of Connecticut. These systems, in total, consist of approximately 1,800 miles of water main and reservoir storage capacity of 2.4 billion gallons. The dependable yield from our 235 active wells and 18 surface water supplies is approximately 65 million gallons per day. 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.

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 Guadalupe-Blanco River Authority (“GBRA”), which expire in 2037, 2040, 2044 and 2050. The agreements, which are take-or-pay contracts, provide CLWSC with an aggregate of 6,900 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 2053 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. With service area conditions shifting to an Abnormally Dry drought condition in most of our Texas service area, with very high usage and little rain in the forecast, CLWSC began implementation of Stage 1 of its Drought Management Plan on July 13, 2020. This was done in coordination with neighboring municipalities with which it shares water supply sources. Stage 1 limits lawn irrigation systems to twice per week watering and signals to customers the need to pursue conservation. CLWSC believes that, with the judicious implementation of its Drought Management Plan, its water supply sources will be sufficient to meet customer demand through the remainder of 2020.

Maine Water’s infrastructure consists of 12 noncontiguous water systems in the State of Maine. These systems, in total, consists of approximately 500 miles of water main and reservoir storage capacity of 7.0 billion gallons. The dependable yield from our 14 active wells and 7 surface water supplies is approximately 120 million gallons per day. 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.

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

	Three months ended June 30,		Increase/ (decrease)	% of Total Change	Six months ended June 30,		Increase/ (decrease)	% of Total Change
	2020	2019			2020	2019		
Purchased water	5,891	5,941	(50)	— %	9,526	9,103	423	2%
Groundwater	5,499	2,402	3,097	30 %	9,844	4,235	5,609	33%
Surface water	2,387	1,885	502	5 %	4,438	3,462	976	6%
Reclaimed water	86	179	(93)	(1)%	172	224	(52)	—%
	<u>13,863</u>	<u>10,407</u>	<u>3,456</u>	<u>34 %</u>	<u>23,980</u>	<u>17,024</u>	<u>6,956</u>	<u>41%</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 June 30, 2020, and 2019 approximated 6.4% and 7.1%, 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 an acquisition-to-date basis for the period ending June 30, 2020 was approximately 16.7% 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 (“WICA”) and Water Infrastructure Surcharge (“WISC”) main replacement programs and lost water reduction initiatives.

Water Production Expenses

The change in water production expenses for the three and six months ended June 30, 2020, compared to the same period in 2019, was primarily attributable to the new SJWNE LLC subsidiary operations, a decrease in available surface water for SJWC, an increase in customer usage and higher per unit costs for purchased water, groundwater extraction and energy charges, offset by a decrease in cost-recovery balancing and memorandum accounts. Effective July 1, 2019, Valley Water increased the unit price of purchased water by approximately 6.1% and the groundwater extraction charge by approximately 6.6%.

Other Operating Expenses

Operating expenses, excluding water production expenses, increased \$14,100 for the three months ended June 30, 2020, compared to the same period in 2019. The increase was primarily attributable to an increase of \$14,187 due to the new SJWNE LLC subsidiary operations, and depreciation and amortization expense due to increases in utility plant, partially offset by a decrease in merger related expenses due to the completion of our merger with CTWS.

Operating expenses, excluding water production expenses, increased \$32,157 for the six months ended June 30, 2020, compared to the same period in 2019. The increase was primarily attributable to an increase of \$30,159 due to the new SJWNE LLC subsidiary operations, and increases in administrative and general expenses primarily due to an increase in accounting

fees and contracted work, and depreciation and amortization expense due to increases in utility plant, partially offset by a decrease in merger related expenses due to the completion of our merger with CTWS.

Other (Expense) Income

For the three and six months ended June 30, 2020, compared to the same periods in 2019, the change in other (expense) income was primarily due to an increase in interest on long-term debt as a result of the issuance of SJW Group's Series 2019A, B and C notes and SJWC's Series M note. In addition, interest income decreased due to use of previously invested money market funds for the merger with CTWS.

Provision for Income Taxes

For the three and six months ended June 30, 2020, compared to the same period in 2019, income tax expense increased \$18 and decreased \$1,589, respectively. The decrease in income tax expense for the six months ended June 30, 2020 is primarily due to the effect of flow-through tax benefits of certain CTWS tax attributes. The effective consolidated income tax rates were 18% and 23% for three months ended June 30, 2020, and 2019, respectively, and 17% and 24% for the six months ended June 30, 2020, and 2019, respectively. The lower effective rates for the three and six months ended June 30, 2020, were primarily due to flow-through tax benefits.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. The CARES Act includes, among other items, measures concerning income taxes. Many of the CARES Act's requirements are subject to further clarification. SJW Group has considered the income tax implications of the CARES Act in its estimated tax provision and does not believe it will materially impact the company's year end tax rate.

SJW Group expects the Internal Revenue Service to issue guidance in future periods that will determine the final disposition of the excess deferred taxes and other impacts of the Tax Cuts and Jobs Act (H.R. 1). At this time, the company has applied a reasonable interpretation of the Tax Act. Future clarification of the Tax Act may change estimated amounts.

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.

See Note 8 of Notes to Unaudited Condensed Consolidated Financial Statements for a discussion of regulatory activities that have occurred during the quarter.

Liquidity:

Cash Flow from Operating Activities

During the six months ended June 30, 2020, SJW Group generated cash flows from operations of approximately \$32,300, compared to \$49,800 for the same period in 2019. 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, gains or losses on the sale of assets, and changes in working capital items. Cash flow from operations decreased by approximately \$17,400. This decrease was the result of a combination of the following factors: (1) decrease in collection in balancing and memorandum accounts of \$20,100, (2) a decrease in collections from accounts receivable and accrued unbilled utility revenue of \$11,800 due to higher unbilled revenue balances and slower collections from customers during the COVID-19 pandemic, (3) an up-front payment of \$5,000 for renewal of the Cupertino service concession agreement, (4) payments of amounts previously invoiced and accrued, which increased by \$4,400, offset by (5) general working capital and net income, adjusted for non-cash items increased by \$18,100, and (6) net collection of taxes receivable which was \$5,800 more than in prior year.

As of June 30, 2020, Water Utility Services' write-offs for uncollectible accounts represent less than 1% of its total revenue, unchanged from June 30, 2019. In March 2020, the regulated utilities commissions of the respective states we operate initiated executive orders suspending water service disconnections due to non-payment from customers in light of the current stay-at-home orders, quarantines and similar governmental restrictions in response to the global COVID-19 pandemic. Management believes that the historical collection rate for its accounts receivables will decrease during the COVID-19 pandemic and although any financial impact is currently tracked to be filed 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 six months ended June 30, 2020, SJW Group used cash flows in investing activities of approximately \$81,100, compared to \$72,500 for the same period in 2019. SJW Group used approximately: (1) \$74,100 of cash for company-funded capital expenditures, (2) \$5,000 for developer-funded capital expenditures, and (3) \$1,600 for utility plant retirements.

Water Utility Services' budgeted capital expenditures for 2020, exclusive of capital expenditures financed by customer contributions and advances, are approximately \$221,800. As of June 30, 2020, approximately \$74,100 or 33% of the \$221,800 has been spent.

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 expect to incur approximately \$1.2 billion in capital expenditures, which includes replacement of pipes and mains, and maintaining water systems. A significant portion of this amount is subject to future CPUC, PURA, PUCT or MPUC 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 six months ended June 30, 2020, increased by approximately \$30,200 from the same period in the prior year, primarily as a result of (1) an increase in net borrowings on our lines of credit of \$74,500, and (2) \$3,300 increase in net cash receipts from advances and contributions in aid of construction, offset by (3) a decrease in net proceeds from new long-term debt of \$46,700.

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.

SJW Group's unsecured senior note agreements has terms and conditions that restrict SJW Group from issuing additional funded debt if: (1) the funded consolidated debt would exceed 66-2/3% of total capitalization, and (2) the minimum net worth of SJW Group becomes less than \$175,000 plus 30% of Water Utility Services cumulative net income, since June 30, 2011. SJW Group was not restricted from issuing future indebtedness as a result of these terms and conditions at June 30, 2020.

SJWC's financing activity is designed to achieve a capital structure consistent with our CPUC authorized structure of approximately 47% debt and 53% equity. As of June 30, 2020, SJWC's funded debt and equity were approximately 48% and 52%, respectively.

Funding for SJWC's future capital expenditure program is expected to be provided primarily through internally-generated funds, the issuance of new long-term debt, and the issuance of equity, all of which will be consistent with regulator guidelines.

SJWC's unsecured senior note agreements generally have terms and conditions that restrict SJWC from issuing additional funded debt if: (1) the funded debt would exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-month-calendar period would be less than 175% of interest charges. SJWC was not restricted from issuing future indebtedness as a result of these terms and conditions at June 30, 2020.

SJWC's loan agreements with the California Pollution Control Financing Authority contain affirmative and negative covenants customary for loan agreements relating to revenue bonds, including, among other things, complying with certain disclosure

obligations and covenants relating to the tax exempt status of the interest on the bonds and limitations and prohibitions relating to the transfer of the projects funded by the loan proceeds and the assignment of the loan agreement. As of June 30, 2020, SJWC was in compliance with all such covenants.

CTWS has outstanding term loans with a commercial bank and under the master loan agreement, CTWS is required to comply with certain financial ratio and operational covenants. The most restrictive of these covenants is to maintain a consolidated (CTWS and its subsidiaries) debt to capitalization ratio of not more than 60%. As of June 30, 2020, CTWS was in compliance with all covenants under the master loan agreement.

Connecticut Water has outstanding term loans with a commercial bank and under its master loan agreement, Connecticut Water is required to comply with financial and operational covenants substantially identical to those found in CTWS's master loan agreement. Connecticut Water is required to maintain a debt to capitalization ratio of not more than 60%. As of June 30, 2020, Connecticut Water was in compliance with all covenants under its master loan agreement.

Connecticut Water has tax exempt and taxable Water Facilities Revenue Bonds issued through Connecticut Innovations (formerly the Connecticut Development Authority). The bond indentures and loan agreements contain customary affirmative and negative covenants and require compliance with financial and operational covenants, and also provide for the acceleration of the Revenue Bonds upon the occurrence of stated events of default. As of June 30, 2020, Connecticut Water was in compliance with all covenants of the bond indentures and loan agreements.

Connecticut Water's unsecured senior notes have terms and conditions that restrict Connecticut Water from issuing additional debt or paying a dividend to CTWS if such debt or distribution would trigger an event of default. The senior note agreements also require Connecticut Water to maintain a debt to capitalization ratio of not more than 60% and an interest coverage ratio at each fiscal quarter end of no less than three-to-one. As of June 30, 2020, Connecticut Water was in compliance with all financial ratio and operational covenants under this agreement.

On March 12, 2020, Connecticut Water entered into a note purchase agreement with the purchasers listed in the agreement, pursuant to which Connecticut Water sold on the same date an aggregate principal amount of \$35,000 of its 3.51% Senior Notes, due March 12, 2050. The notes are unsecured obligations of Connecticut Water. Interest is payable semi-annually in arrears on March 12th and September 12th of each year. The note purchase agreement contains customary representations and warranties. Under the note purchase agreement, Connecticut 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.

SJWTX, Inc.'s unsecured senior note agreement has terms and conditions that restrict SJWTX, Inc. from issuing additional funded debt if: (1) the funded debt would exceed 66-2/3% of total capitalization, and (2) net income available for interest charges for the trailing 12-month-calendar period would be less than 175% of interest charges. In addition, SJW Group is a guarantor of SJWTX, Inc.'s senior note which has terms and conditions that restrict SJW Group from issuing additional funded debt if: (1) the funded consolidated debt would exceed 66-2/3% of total capitalization, and (2) the minimum net worth of SJW Group becomes less than \$125,000 plus 30% of Water Utility Services cumulative net income, since December 31, 2005. As of June 30, 2020, SJWTX, Inc. and SJW Group were not restricted from issuing future indebtedness as a result of these terms and conditions.

Maine Water has First Mortgage Bonds issued to the Maine Municipal Bond Bank through the State Safe Drinking Water Revolving Loan Fund and First Mortgage Bonds issued to One America. The associated bond indentures and loan agreements contain customary affirmative and negative covenants, including a prohibition on the issuance of indebtedness secured by assets or revenue of Maine Water where the lien is senior to the lien of the bond trustee under the above bonds except as permitted by the bond indentures and related loan and security agreements, a requirement to maintain a debt to capitalization ratio of not more than 65%, required compliance with various financial and operational covenants, and a provision for maturity acceleration upon the occurrence of stated events of default. As of June 30, 2020, Maine Water was in compliance with all covenants in its bond indentures and related loan agreements.

Maine Water has outstanding term loans with a commercial bank and under its master loan agreement, Maine Water is required to comply with financial and operational covenants substantially identical to those found in CTWS and Connecticut Water's master loan agreements. Maine Water is required to maintain a debt to capitalization ratio of not more than 60%. As of June 30, 2020, Maine Water was in compliance with all covenants under its master loan agreement.

HVWC has a term loan with a commercial bank, due in 2034. The loan is secured by real property owned by HVWC. The loan agreement restricts HVWC's ability to incur additional debt and requires compliance with a funded debt to capitalization covenant and other operational covenants. As of June 30, 2020, HVWC was in compliance with all covenants of the loan.

Avon Water has a mortgage loan that is due in 2033. The loan agreement (1) generally restricts the ability of Avon Water to incur additional debt or make dividend payments other than in the ordinary course of business, and (2) requires submission of

periodic financial reports as part of loan covenants. As of June 30, 2020, Avon Water was in compliance with all covenants of the loan.

As of June 30, 2020, SJW Group and its subsidiaries had unsecured bank lines of credit, allowing aggregate short-term borrowings of up to \$310,000, of which \$5,000 was available to SJWTX, Inc. under a single line of credit, \$190,000 was available to SJWC under two additional lines of credit line of credit, and \$40,000 and \$75,000 under a fourth and fifth, respectively, lines of credit was available to CTWS. At June 30, 2020, SJW Group and its subsidiaries had available unused short-term bank lines of credit totaling \$163,329. The lines of credit bear interest at variable rates. On April 24, 2020, SJW Group terminated a \$15,000 joint unsecured bank line of credit held by SJW Group and SJW Land Company effective April 29, 2020. On May 11, 2020, SJWC amended its \$125,000 unsecured line of credit to increase the lending commitment by \$15,000 to \$140,000. In addition, on May 11, 2020, SJWC entered into an additional unsecured line of credit allowing borrowings of up to \$50,000 for a six month period. The \$140,000 and \$50,000 lines of credit of SJWC expire on June 1, 2021 and November 11, 2020, respectively. The line of credit for SJWTX, Inc. expires on June 1, 2021. On May 29, 2020, the CTWS entered into a Second Amendment to the CTWS's existing \$15,000 credit agreement, dated as of August 6, 2014, with the CoBank, ACB ("CoBank"), as amended by the First Amendment, dated October 28, 2015. The Second Amendment amends the prior agreement to, among other things, increase the total commitment by \$25,000, from \$15,000 to \$40,000. The \$40,000 and \$75,000 lines of credit for CTWS expire May 15, 2025 and December 14, 2023, respectively. During 2020, the cost of borrowing on SJW Group's short-term credit facilities has averaged 2.02%. 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 financial covenants that require the borrower to maintain a maximum funded debt to capitalization ratio and a minimum interest coverage ratio. As of June 30, 2020, SJW Group and its subsidiaries were in compliance with all covenants on their lines of credit.

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 key risk, we believe that based on our 2020 activities, we will have access to the external funding sources necessary to implement our on-going capital investment programs in the future. On October 16, 2019, Standard & Poor's Ratings Service initiated coverage on SJW Group assigning a company rating of A-, with a stable outlook and affirming its company rating of SJWC of A, with a stable outlook. In addition, on October 14, 2019, S&P affirmed its ratings of CTWS and Connecticut Water of 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 plans for its employees. Pension costs and the funded status of the plans are 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 second fiscal quarter of 2020 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, 2019 and our other public filings, which could materially affect our business, financial condition or future results. Other than the risk factors listed and referenced below, there have 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, 2019.

Our business, financial condition, and results of operations have been and will continue to be negatively impacted by the COVID-19 pandemic.

We are subject to risks related to the global pandemic associated with COVID-19. COVID-19 has spread to all 50 states in the U.S. and the President has declared the COVID-19 pandemic a national emergency. Numerous governmental jurisdictions, including the States of California, Connecticut, Maine and Texas where we maintain our water utility operations, have imposed "shelter-in-place" orders, quarantines, executive orders and similar governmental orders and restrictions for their residents to control the spread of COVID-19. Such orders or restrictions have resulted in business closures, work stoppages, slowdowns and delays in commercial activities, unprecedented and widespread unemployment, travel restrictions and cancellation of events, among other effects, thereby negatively impacting our suppliers, employees and customers, among others.

In California, Governor Gavin Newsom signed an executive order suspending water service disconnections due to non-payment by customers retroactive to March 4, 2020 and until further notice. In Connecticut and Maine, in accordance with PURA and MPUC moratorium rulings on March 12, 2020 and March 16, 2020, respectively, we have halted shutoff for nonpayment. PUCT in Texas had ordered on March 13, 2020 public utilities to suspend water service disconnections and late fees charged to customers which expired on June 13, 2020. Although there is no guarantee that PUCT will not reinstate or impose similar orders in the future. These and other events associated with the COVID-19 pandemic have reduced the incentive and ability of our residential and commercial customers to pay their water services bills on time, if at all, which could negatively impact our result of operations. Furthermore, a significant portion of our revenue is derived from water usage by commercial customers. As many of these customers have suspended, altered or terminated their business operations to comply with government orders, their water usage may decline significantly or cease, which could adversely affect our revenue. While some states and counties have announced a schedule to allow more businesses to reopen, it is unclear whether any of our commercial customers intend to open fully or at all due to their ongoing concerns with safety at the workplace. Connecticut Water and Heritage Village have an approved regulatory mechanism for a water revenue adjustment that provides for recovery of the companies' authorized annual revenues through a customer surcharge or credit that mitigates the impact of reduced usage but will not cover losses for non-payment or bad debt. Furthermore, while we expect to recover some of the revenue loss and costs through the rate-making process, there is no guarantee that such recovery will be approved by the regulated utility authorities in a timely manner, or at all.

In addition to loss of revenue, we are subject to the following risks resulting from the COVID-19 pandemic and related events:

- the financial impact of the COVID-19 pandemic may require us to reassess the goodwill recorded by SJW Group following the completion of our merger with CTWS in October 2019, and such reassessment may result in a future significant or material impairment of our goodwill asset;
- we may encounter difficulties and disruptions in communication and coordination among our employees, partners, customers and others, which may reduce our productivity and interfere with our normal operations;
- our planned infrastructure improvement projects were temporarily interrupted by COVID-19 government orders, restrictions and supply shortages. This may negatively impact our ability to maintain our infrastructure and provide reliable services to customers. In addition, this may reduce our expenditures on capital improvements, which may in turn impact rate decisions by CPUC, PURA, PUCT and MPUC.
- widespread COVID-19 disease could impact the health of our employees and management team, which may disrupt our business operations; and

- a recession, stock market correction, or debt market disruptions resulting from the spread of COVID-19 could materially affect our business, our results of operations, our cash flow, and the value of our common stock, which may make it more difficult for us to access capital in equity and debt markets.

The ultimate impact of the COVID-19 pandemic is highly uncertain and subject to change. We cannot predict when this pandemic will end and when related governmental orders and restrictions will be eased or lifted, and any extension or prolonged implementation of these measures will further adversely affect our business and financial results. Even after such orders and restrictions are eased or lifted, the severe economic impact on the jurisdictions and areas in which we operate may last for an extended period of time and continue to adversely affect our business, and there is no guarantee that we will be able to act quickly to return to our normal operations.

ITEM 5. OTHER INFORMATION

Quarterly Dividend

On July 29, 2020, the Board of Directors of SJW Group declared the regular quarterly dividend of \$0.32 per share of common stock. The dividend will be paid on September 1, 2020, to stockholders of record as of the close of business on August 10, 2020.

Information Web Sites

SJW Group post information about the operating and financial performance of SJW Group and its subsidiaries on its web sites at www.sjwater.com and www.sjwgroup.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	Credit Agreement, dated May 11, 2020, between San Jose Water Company and JPMorgan Chase Bank, N.A. Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2020.
10.2	Second Amendment to Credit Agreement, dated May 11, 2020, between San Jose Water Company and JPMorgan Chase Bank, N.A. Incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2020.
31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) by Chairman, President and Chief Executive Officer. (1)
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) by Chief Financial Officer and Treasurer. (1)
32.1	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. (1)
32.2	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. (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.

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: August 10, 2020

By: /s/ JAMES P. LYNCH

James P. Lynch

**Chief Financial Officer and Treasurer
(Principal financial officer)**

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: August 10, 2020

/s/ ERIC W. THORNBURG

Eric W. Thornburg

Chairman, President and Chief Executive Officer

(Principal executive officer)

CERTIFICATIONS

I, James P. Lynch, 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: August 10, 2020

/s/ JAMES P. LYNCH

James P. Lynch
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 June 30, 2020 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)

August 10, 2020

**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 June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James P. Lynch, 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/ JAMES P. LYNCH

James P. Lynch

Chief Financial Officer and Treasurer

(Principal financial officer)

August 10, 2020