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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from _____ to _____

Commission file number 1-8966

SJW GROUP

(Exact name of registrant as specified in its charter)

Delaware **77-0066628**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

110 West Taylor Street, San Jose, CA 95110

(Address of principal executive offices) (Zip Code)

(408) 279-7800

(Registrant's telephone number, including area code)

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

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|----------------------------|--------------------------|--|
|----------------------------|--------------------------|--|

| | | |
|---|-----|-----------------------------|
| Common Stock, par value \$0.001 per share | SJW | New York Stock Exchange LLC |
|---|-----|-----------------------------|

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

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

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

Large accelerated filer Non-accelerated filer

Accelerated filer Smaller reporting company

Emerging growth company

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of October 24, 2023, there were 31,933,003 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 regulatory actions concerning rates, authorized return on equity, authorized capital structures, capital expenditures and other decisions;
- changes in demand for water and other services;
- unanticipated weather conditions and changes in seasonality including those affecting water supply and customer usage;
- the effect of the impact of climate change;
- unexpected costs, charges or expenses;
- our ability to successfully evaluate investments in new business and growth initiatives;
- contamination of our water supplies and damage or failure of our water equipment and infrastructure;
- the risk of work stoppages, strikes and other labor-related actions;
- catastrophic events such as fires, earthquakes, explosions, floods, ice storms, tornadoes, hurricanes, terrorist acts, physical attacks, cyber-attacks, epidemic or other similar occurrences;
- changes in general economic, political, business and financial market conditions;
- the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings, changes in interest rates, compliance with regulatory requirements, compliance with the terms and conditions of our outstanding indebtedness and general market and economic conditions; and
- legislative and general market and economic developments.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|---------------|---------------------------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| REVENUE | \$ 204,843 | 175,981 | \$ 499,025 | 449,324 |
| OPERATING EXPENSE: | | | | |
| Production Expenses: | | | | |
| Purchased water | 46,044 | 38,744 | 101,054 | 84,313 |
| Power | 2,785 | 3,913 | 7,363 | 10,387 |
| Groundwater extraction charges | 21,398 | 19,059 | 46,751 | 51,347 |
| Other production expenses | 12,415 | 11,888 | 36,379 | 33,607 |
| Total production expenses | 82,642 | 73,604 | 191,547 | 179,654 |
| Administrative and general | 23,888 | 23,909 | 71,759 | 71,374 |
| Maintenance | 6,457 | 7,065 | 18,813 | 20,651 |
| Property taxes and other non-income taxes | 8,795 | 8,354 | 25,092 | 24,242 |
| Depreciation and amortization | 26,455 | 25,529 | 78,872 | 78,342 |
| Gain on sale of nonutility property | — | (82) | — | (5,532) |
| Total operating expense | 148,237 | 138,379 | 386,083 | 368,731 |
| OPERATING INCOME | 56,606 | 37,602 | 112,942 | 80,593 |
| OTHER (EXPENSE) INCOME: | | | | |
| Interest on long-term debt and other interest expense | (16,744) | (14,190) | (48,913) | (42,160) |
| Pension non-service (cost) credit | (740) | 970 | (906) | 2,860 |
| Other, net | 1,661 | 875 | 7,042 | 2,694 |
| Income before income taxes | 40,783 | 25,257 | 70,165 | 43,987 |
| Provision for income taxes | 4,561 | 223 | 4,127 | 3,658 |
| NET INCOME | 36,222 | 25,034 | 66,038 | 40,329 |
| Other comprehensive income (loss), net | 318 | (173) | 420 | (602) |
| COMPREHENSIVE INCOME | <u>\$ 36,540</u> | <u>24,861</u> | <u>\$ 66,458</u> | <u>39,727</u> |
| EARNINGS PER SHARE | | | | |
| Basic | \$ 1.14 | 0.83 | \$ 2.10 | 1.33 |
| Diluted | \$ 1.13 | 0.82 | \$ 2.09 | 1.33 |
| DIVIDENDS PER SHARE | \$ 0.38 | 0.36 | \$ 1.14 | 1.08 |
| WEIGHTED AVERAGE SHARES OUTSTANDING | | | | |
| Basic | 31,862,518 | 30,269,462 | 31,436,077 | 30,246,201 |
| Diluted | 31,934,636 | 30,392,295 | 31,526,732 | 30,358,268 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | September 30, 2023 | December 31, 2022 |
|---|-------------------------------|------------------------------|
| ASSETS | | |
| Utility plant: | | |
| Land | \$ 41,427 | 39,982 |
| Depreciable plant and equipment | 3,879,507 | 3,661,285 |
| Construction in progress | 113,204 | 116,851 |
| Intangible assets | 35,946 | 35,959 |
| Total utility plant | 4,070,084 | 3,854,077 |
| Less accumulated depreciation and amortization | 1,305,134 | 1,223,760 |
| Net utility plant | 2,764,950 | 2,630,317 |
| Nonutility properties and real estate investments | 13,072 | 58,033 |
| Less accumulated depreciation and amortization | 192 | 17,158 |
| Net nonutility properties and real estate investments | 12,880 | 40,875 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 21,067 | 12,344 |
| Accounts receivable: | | |
| Customers, net of allowances for uncollectible accounts of \$6,661 and \$5,753 on September 30, 2023 and December 31, 2022, respectively | 70,374 | 59,172 |
| Other | 4,381 | 5,560 |
| Accrued unbilled utility revenue | 62,253 | 45,722 |
| Assets held for sale | 40,850 | — |
| Prepaid expenses | 14,996 | 9,753 |
| Current regulatory assets, net | 8,573 | 16,068 |
| Other current assets | 6,277 | 6,095 |
| | 228,771 | 154,714 |
| OTHER ASSETS: | | |
| Net regulatory assets, less current portion | 131,420 | 127,275 |
| Investments | 15,901 | 14,819 |
| Other intangible asset | 28,386 | — |
| Goodwill | 640,311 | 640,311 |
| Other | 20,809 | 24,313 |
| | 836,827 | 806,718 |
| | \$ 3,843,428 | 3,632,624 |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | September 30, 2023 | December 31, 2022 |
|---|-------------------------------|------------------------------|
| CAPITALIZATION AND LIABILITIES | | |
| CAPITALIZATION: | | |
| Stockholders' equity: | | |
| Common stock, \$0.001 par value; authorized 70,000,000 shares; issued and outstanding shares 31,933,003 on September 30, 2023 and 30,801,912 on December 31, 2022 | \$ 32 | 31 |
| Additional paid-in capital | 729,740 | 651,004 |
| Retained earnings | 488,585 | 458,356 |
| Accumulated other comprehensive income | 1,896 | 1,477 |
| Total stockholders' equity | 1,220,253 | 1,110,868 |
| Long-term debt, less current portion | 1,533,769 | 1,491,965 |
| | <u>2,754,022</u> | <u>2,602,833</u> |
| CURRENT LIABILITIES: | | |
| Lines of credit | 128,433 | 159,578 |
| Current portion of long-term debt | 43,464 | 4,360 |
| Accrued groundwater extraction charges, purchased water and power | 33,170 | 19,707 |
| Accounts payable | 35,926 | 29,581 |
| Accrued interest | 19,165 | 13,907 |
| Accrued payroll | 11,264 | 11,908 |
| Income tax payable | 11,809 | 2,696 |
| Other current liabilities | 24,885 | 22,913 |
| | <u>308,116</u> | <u>264,650</u> |
| DEFERRED INCOME TAXES | 234,558 | 218,155 |
| ADVANCES FOR CONSTRUCTION | 143,810 | 137,696 |
| CONTRIBUTIONS IN AID OF CONSTRUCTION | 328,633 | 323,668 |
| POSTRETIREMENT BENEFIT PLANS | 51,150 | 59,738 |
| OTHER NONCURRENT LIABILITIES | 23,139 | 25,884 |
| COMMITMENTS AND CONTINGENCIES | \$ 3,843,428 | 3,632,624 |

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 | | Accumulated Other Comprehensive Income | | | Total Stockholders' Equity |
|---|-------------------|--------------|--|-------------------|-----------------|----------------------------|
| | Number of Shares | Amount | Additional Paid-in Capital | Retained Earnings | Income | |
| BALANCES, December 31, 2022 | 30,801,912 | \$ 31 | \$ 651,004 | \$ 458,356 | \$ 1,477 | \$ 1,110,868 |
| Net income | — | — | — | 11,530 | — | 11,530 |
| Unrealized gain on investment, net of taxes of \$ 0 | — | — | — | — | 93 | 93 |
| Stock-based compensation | — | — | 1,199 | (22) | — | 1,177 |
| Issuance of restricted and deferred stock units | 38,776 | — | (1,538) | — | — | (1,538) |
| Employee stock purchase plan | 16,410 | — | 1,080 | — | — | 1,080 |
| Common stock issuance, net of costs | 570,026 | — | 40,997 | — | — | 40,997 |
| Dividends paid (\$0.38 per share) | — | — | — | (11,722) | — | (11,722) |
| BALANCES, March 31, 2023 | 31,427,124 | 31 | 692,742 | 458,142 | 1,570 | 1,152,485 |
| Net income | — | — | — | 18,286 | — | 18,286 |
| Unrealized gain on investment, net of taxes of \$(37) | — | — | — | — | 8 | 8 |
| Stock-based compensation | — | — | 1,139 | (17) | — | 1,122 |
| Issuance of restricted and deferred stock units | 13,429 | — | (20) | — | — | (20) |
| Common stock issuance, net of costs | 290,477 | 1 | 22,781 | — | — | 22,782 |
| Dividends paid (\$0.38 per share) | — | — | — | (11,947) | — | (11,947) |
| BALANCES, June 30, 2023 | 31,731,030 | 32 | 716,642 | 464,464 | 1,578 | 1,182,716 |
| Net income | — | — | — | 36,222 | — | 36,222 |
| Unrealized gain on investment, net of taxes of \$193 | — | — | — | — | 318 | 318 |
| Stock-based compensation | — | — | 1,238 | (8) | — | 1,230 |
| Issuance of restricted and deferred stock units | 14,840 | — | (706) | — | — | (706) |
| Employee stock purchase plan | 17,712 | — | 1,061 | — | — | 1,061 |
| Common stock issuance, net of costs | 169,421 | — | 11,505 | — | — | 11,505 |
| Dividends paid (\$0.38 per share) | — | — | — | (12,093) | — | (12,093) |
| BALANCES, September 30, 2023 | 31,933,003 | \$ 32 | \$ 729,740 | \$ 488,585 | \$ 1,896 | \$ 1,220,253 |

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

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Nine months ended September 30, | |
|---|---------------------------------|------------------|
| | 2023 | 2022 |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 66,038 | 40,329 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 80,544 | 79,862 |
| Deferred income taxes | 12,996 | 7,135 |
| Stock-based compensation | 3,576 | 3,991 |
| Allowance for equity funds used during construction | (1,649) | (1,324) |
| Gain on sale of nonutility asset | — | (5,532) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and accrued unbilled utility revenue | (26,782) | (22,511) |
| Accounts payable and other current liabilities | 557 | (1,475) |
| Accrued groundwater extraction charges, purchased water and power | 13,463 | 10,494 |
| Tax receivable and payable, and other accrued taxes | 690 | (1,851) |
| Postretirement benefits | (1,851) | (2,719) |
| Regulatory assets and liabilities excluding income tax temporary differences, net and postretirement benefits | 16,092 | 21,776 |
| Up-front service concession payment | — | (1,600) |
| Other changes, net | (4,371) | 2,774 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 159,303 | 129,349 |
| INVESTING ACTIVITIES: | | |
| Additions to utility plant: | | |
| Company-funded | (195,937) | (160,515) |
| Contributions in aid of construction | (13,604) | (17,773) |
| Additions to nonutility assets | (24,244) | (610) |
| Payments to retire utility plant, net of salvage | (908) | (2,432) |
| Proceeds from sale of nonutility properties | — | 310 |
| Payments for business acquisitions | (7,286) | (433) |
| Other changes, net | 238 | — |
| NET CASH USED IN INVESTING ACTIVITIES | (241,741) | (181,453) |
| FINANCING ACTIVITIES: | | |
| Borrowings on line of credit | 102,655 | 152,655 |
| Repayments on line of credit | (133,800) | (16,481) |
| Long-term borrowings | 70,000 | 15,000 |
| Repayments of long-term borrowings | (3,062) | (87,757) |
| Issuance of common stock, net of issuance costs | 75,284 | 3,107 |
| Dividends paid | (35,762) | (32,667) |
| Receipts of advances and contributions in aid of construction | 18,889 | 21,593 |
| Refunds of advances for construction | (2,148) | (2,177) |
| Other changes, net | (895) | (98) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 91,161 | 53,175 |
| NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | 8,723 | 1,071 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD | 12,344 | 12,119 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD | 21,067 | 13,190 |
| LESS RESTRICTED CASH, END OF PERIOD | — | — |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 21,067 | 13,190 |
| Cash paid during the period for: | | |
| Interest | \$ 44,132 | 42,473 |
| Income taxes | 818 | 572 |
| Supplemental disclosure of non-cash activities: | | |
| Accrued payables for additions to utility plant | \$ 26,315 | 22,044 |
| Utility property installed by developers | 1,295 | 976 |
| Seller financing in asset acquisition, net of discount | 15,400 | — |

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023
(in thousands, except share and per share data)

Note 1.

General

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

The unaudited interim financial information has been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission. The Notes to Consolidated Financial Statements in SJW Group's 2022 Annual Report on Form 10-K should be read with the accompanying unaudited condensed consolidated financial statements.

SJW Group is a holding company with four wholly owned subsidiaries: San Jose Water Company ("SJWC"), SJWTX Holdings, Inc., SJW Land Company, and SJWNE LLC. SJWTX Holdings, Inc., is a holding company for its wholly owned subsidiaries, SJWTX, Inc., doing business as The Texas Water Company ("TWC"), Texas Water Operation Services, LLC, ("TWOS") and Texas Water Resources, LLC ("TWR"). SJWNE LLC is the holding company for Connecticut Water Service, Inc. ("CTWS") whose wholly owned subsidiaries are The Connecticut Water Company ("CWC"), The Maine Water Company ("MWC"), New England Water Utility Services, Inc. ("NEWUS"), and Chester Realty, Inc. SJWC, CWC, TWC, TWOS, TWR, MWC and NEWUS are referred to as "Water Utility Services". SJW Land Company and Chester Realty, Inc. are collectively referred to as "Real Estate Services."

Revenue

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|----------------------|---------------------------------|----------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Revenue from contracts with customers | \$ 211,716 | 169,972 | \$ 507,276 | 440,406 |
| Alternative revenue programs, net | 957 | 3,172 | (2,638) | (1,737) |
| Other balancing and memorandum accounts, net | (8,742) | 1,857 | (8,564) | 6,719 |
| Other regulatory mechanisms, net | (518) | (494) | (1,342) | (260) |
| Rental income | 1,430 | 1,474 | 4,293 | 4,196 |
| | <hr/> <u>\$ 204,843</u> | <hr/> <u>175,981</u> | <hr/> <u>\$ 499,025</u> | <hr/> <u>449,324</u> |

Nonutility Properties and Real Estate Investments

The major components of real estate investments and nonutility properties as of September 30, 2023 and December 31, 2022, are as follows:

| | September 30, | | December 31, | |
|---|---------------|------------------------|---------------------|------|
| | 2023 | 2022 | 2023 | 2022 |
| Land | | \$ 4,137 | 12,615 | |
| Wholesale water supply assets | | 8,465 | — | |
| Buildings and improvements | | 470 | 45,418 | |
| Subtotal | | 13,072 | 58,033 | |
| Less: accumulated depreciation and amortization | | 192 | 17,158 | |
| Total | | <hr/> <u>\$ 12,880</u> | <hr/> <u>40,875</u> | |

In March 2023, SJW Land Company entered into a broker agreement to sell its warehouse buildings and land property located in Knoxville, Tennessee. The company reclassified the Tennessee properties from held-and-used to held-for-sale at March 31,

SJW GROUP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
September 30, 2023
(in thousands, except share and per share data)

2023. The company's intention is to complete the sale of these assets within a twelve month period. The company recorded the Tennessee properties at the lower of their carrying value or estimated fair value less cost to sell, and also stopped recording depreciation on assets held for sale. The company's broker provided the estimated fair value of the Tennessee properties. The estimated costs to sell was subtracted to estimate the fair value. The resulting net fair value of the Tennessee properties exceeded their carrying value, and accordingly no impairment was recorded.

The sale of the Tennessee properties does not represent a strategic shift that has or will have a major effect on SJW Group; therefore, the sale does not qualify for treatment as a discontinued operation.

The Tennessee warehouse buildings and land property is included in SJW Group's "Real Estate Services" reportable segment in [Note 9](#), "Segment and Non-Tariffed Business Reporting". The following represents the major components of the Tennessee warehouse building and land property recorded in assets held-for-sale on the condensed consolidated balance sheets as of September 30, 2023:

| | September 30, 2023 |
|---|-----------------------|
| Land | \$ 13,170 |
| Buildings and improvements | 44,950 |
| Subtotal | 58,120 |
| Less: accumulated depreciation and amortization | 17,270 |
| Total | \$ 40,850 |

On February 15, 2022, the California Public Utilities Commission ("CPUC") review on a SJWC nonutility property sold in October 2021 was completed and the deferred gain of \$5,442 was recognized as gain on sale in the first quarter of 2022.

Fair Value Measurement

The following instruments are not measured at fair value on SJW Group's condensed consolidated balance sheets as of September 30, 2023, but require disclosure of their fair values: cash and cash equivalents, accounts receivable and accounts payable. The estimated fair value of such instruments as of September 30, 2023 approximates their carrying value as reported on the condensed consolidated balance sheets. There have been no changes in valuation techniques during the three and nine months ended September 30, 2023. The fair value of these instruments would be categorized as Level 2 in the fair value hierarchy, with the exception of cash and cash equivalents, which would be categorized as Level 1.

The fair value of SJW Group's long-term debt was \$1,299,114 and \$1,294,354 as of September 30, 2023 and December 31, 2022, respectively, and was determined using a discounted cash flow analysis, based on the current rates for similar financial instruments of the same duration and creditworthiness of the company. The book value of long-term debt was \$1,577,233 and \$1,496,325 as of September 30, 2023 and December 31, 2022, respectively. Of the total fair value of long-term debt, \$1,283,602 would be categorized as Level 2 in the fair value hierarchy and \$ 15,512 would be categorized as Level 3 in the fair value hierarchy.

CTWS's additional retirement benefits under the supplemental executive retirement plans and retirement contracts are funded by investment assets held by a Rabbi Trust. The fair value of the money market funds, mutual funds and fixed income investments in the Rabbi Trust was \$2,808 and \$2,809 as of September 30, 2023 and December 31, 2022, respectively, and are categorized as Level 1 in the fair value hierarchy.

Earnings per Share

Basic earnings per share is calculated using income available to common stockholders, divided by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated using income available to common stockholders divided by the weighted average number of shares of common stock including both shares outstanding and shares potentially issuable in connection with restricted common stock awards under SJW Group's long-term incentive plans, shares potentially issuable under the performance stock plans assumed through the business combination with CTWS, and shares potentially issuable under SJW Group's employee stock purchase plans. For the three months ended September 30, 2023 and 2022, 1,826 and 2,416 anti-dilutive restricted common stock units were excluded from the diluted earnings per share calculation, respectively. For the nine months ended September 30, 2023 and 2022, 12,524 and 18,240 anti-dilutive restricted common stock units were excluded from the diluted earnings per share calculation, respectively.

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Note 2.

Regulatory Matters

Regulatory assets, net are comprised of the following as of September 30, 2023 and December 31, 2022:

| | September 30, 2023 | December 31, 2022 |
|---|---------------------------|--------------------------|
| Regulatory assets: | | |
| Income tax temporary differences, net | \$ 62,745 | 43,434 |
| Postretirement pensions and other postretirement benefits | 30,076 | 31,493 |
| Business combinations debt premium, net | 15,490 | 17,396 |
| Monterey Water Revenue Adjustment Mechanism ("MWRAM") | 12,162 | 10,864 |
| Water Conservation Memorandum Account ("WCMA") | (7,683) | (5,039) |
| 2022 General Rate Case Interim Memorandum Account | 9,513 | 20,650 |
| Cost recovery balancing and memorandum accounts | 8,267 | 16,545 |
| All other balancing and memorandum accounts | 4,344 | 2,749 |
| Water Revenue Adjustment ("WRA") | (5,428) | (4,488) |
| Other, net | 10,507 | 9,739 |
| Total regulatory assets, net in Condensed Consolidated Balance Sheets | <u>139,993</u> | <u>143,343</u> |
| Less: current regulatory assets, net | 8,573 | 16,068 |
| Total regulatory assets, net, less current portion | \$ 131,420 | 127,275 |

SJWC has established balancing accounts for the purpose of tracking the under-collection or over-collection associated with expense changes and revenue authorized by the CPUC to offset those expense changes. In 2022, SJWC's general rate case decision approved the use of the Full Cost Balancing Account to track the water supply costs and energy consumption. The MWRAM balancing account 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.

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 WCMA allows SJWC to track lost revenue, net of related water costs, associated with reduced sales due to water conservation and associated calls for water use reductions. SJWC records the lost revenue captured in the WCMA balancing accounts. Drought surcharges collected are used to offset the revenue losses tracked in the WCMA. Mandatory water conservation requirements from Santa Clara Valley Water District ended on April 11, 2023, which also ended SJWC's Mandatory Conservation Plan, that included drought allocations and surcharges. On October 2, 2023, the CPUC approved the continuation of WCMA and Water Conservation Expense Memorandum Account under the voluntary call for conservation effective April 20, 2023. All balancing accounts and memorandum accounts not included for recovery or refund in the current general rate case will be reviewed by the CPUC in SJWC's next general rate case or at the time an individual account balance reaches a threshold of 2% of authorized revenue, whichever occurs first.

CWC has been authorized by the Connecticut Public Utilities Regulatory Authority to utilize a WRA, a decoupling mechanism, to mitigate risk with changes in demand. The WRA is used to reconcile actual water demands with the demands projected in the most recent general rate case and allows the company to implement a surcharge or surcredit as necessary to recover or refund the revenues approved in the general rate case. The WRA allows the company to defer, as a regulatory asset or liability, the amount by which actual revenues deviate from the revenues allowed in the most recent general rate proceedings.

As of September 30, 2023 and December 31, 2022, SJW Group's regulatory assets, net, not earning a return primarily included postretirement pensions and the unfunded amount of other medical benefits, and business combination debt premiums, net. The total amount of regulatory assets, net not earning a return at September 30, 2023 and December 31, 2022, either by interest on the regulatory asset/liability or as a component of rate base at the allowed rate of return was \$48,954 and \$52,066, respectively.

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Note 3. Capitalization

In March 2023, SJW Group entered into Amendment No. 1 to the equity distribution agreement (the "Equity Distribution Agreement"), dated November 17, 2021, between SJW Group and J.P. Morgan Securities LLC, Janney Montgomery Scott LLC, RBC Capital Markets, LLC and Wells Fargo Securities, LLC (each a "Sales Agent" and, collectively, the "Sales Agents"), pursuant to which SJW Group increased the aggregate gross sales price of shares of SJW Group's common stock, \$0.001 par value per share, that may be sold under the Equity Distribution Agreement from \$ 100,000 to \$240,000. For the three and nine months ended September 30, 2023, SJW Group issued and sold a total of 169,421 and 1,029,924 shares of common stock, respectively, at a weighted average price of \$69.57 and \$74.57 per share, respectively, and received \$11,505 and \$75,284 in net proceeds, respectively, under the Equity Distribution Agreement. Since the inception of the Equity Distribution Agreement, SJW Group has issued and sold 1,914,775 shares of common stock at a weighted average price of \$74.05 for a total net proceeds of \$138,716 and has \$98,209 remaining under the Equity Distribution Agreement to issue into shares.

Note 4. Bank Borrowings and Long-Term Liabilities

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

Short-term Financing Agreements

In August 2023, SJW Group, SJWC, TWC, and CTWS entered into the First Amendment to Credit Agreement with JPMorgan Chase Bank which provided for, among other matters, an extension of the maturity date from August 2, 2027 to August 2, 2028.

The weighted-average interest rate on short-term borrowings outstanding at September 30, 2023 was 6.48% compared to 5.40% at December 31, 2022.

Long-term Financing Agreements

In July 2022, SJWC entered into a note purchase agreement with certain affiliates of New York Life Insurance, Metropolitan Life Insurance, Northwestern Mutual Life Insurance, and John Hancock Life Insurance (collectively the "Purchasers"), pursuant to which SJWC will sell an aggregate principal amount of \$70,000 of its 4.85% Senior Notes, Series P ("Series P Notes") to the Purchasers. The Series P Notes are unsecured obligations of SJWC and are due on February 1, 2053. Interest is payable semi-annually in arrears on February 1st and August 1st of each year. The note purchase agreement contains customary affirmative and negative covenants for as long as the Series P Notes are outstanding. The Series P Notes are also subject to customary events of default. The closing of the note purchase agreement occurred on January 25, 2023.

In August 2023, TWR closed on an asset acquisition from KT Water Resources L.P. which included of an obligation for a post-closing production payment of \$29,000 to the seller over a period of up to 29 years. This obligation was recorded at its fair value of \$15,400 as of the date of the acquisition. Please see [Note 10](#) of "Notes to Condensed Consolidated Financial Statements" for additional information about this obligation.

Note 5. Income Taxes

For the three and nine months ended September 30, 2023, income tax expense was \$ 4,561 and \$4,127, respectively. Income tax expense for the three and nine months ended September 30, 2022 was \$223 and \$3,658, respectively. The effective consolidated income tax rates were 11% and 1% for the three months ended September 30, 2023 and 2022, respectively, and 6% and 8% for the nine months ended September 30, 2023 and 2022, respectively. The higher effective tax rate for the three months ended September 30, 2023 was primarily due to the tax benefit relating to a tax accounting method change recorded in the third quarter 2022. There was no such benefit recorded in the third quarter of 2023. The lower effective tax rate for the nine months ended September 30, 2023 was primarily due to higher flow-through tax benefits.

In April 2023, the Internal Revenue Service issued additional tax guidance that has allowed the company to revisit certain historical income tax reserves. Pursuant to the issuance of this guidance, which provided additional clarification regarding some of the uncertain tax areas, the company re-evaluated the risk relating to repair deductions. The result of the analysis led to a partial release of an uncertain tax position reserve of \$3,087 which was recorded in the second quarter of 2023. The release relates to repairs expenditures that are more likely than not to be sustained on audit.

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SJW Group had unrecognized tax benefits, before the impact of deductions of state taxes, excluding interest and penalties, of approximately \$ 5,981 and \$9,004 as of September 30, 2023 and December 31, 2022, respectively.

SJW Group currently does not expect uncertain tax positions to change significantly over the next 12 months, except in the case of a lapse of the statute of limitations.

Note 6. Commitments and Contingencies

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

Note 7. Benefit Plans

SJW Group maintains noncontributory defined benefit pension plans for its eligible employees. SJWC and CTWS employees hired before March 31, 2008, and January 1, 2009, respectively, are entitled to benefits under the pension plans based on the employee's years of service and compensation. For SJWC employees hired on or after March 31, 2008, benefits are determined using a cash balance formula based upon compensation credits and interest credits for each employee. Starting in 2023, TWC employees are also eligible to participate under SJWC's cash balance plan. Certain CTWS employees hired before March 1, 2012, and covered by a plan merged into the CTWS plan in 2013 are also entitled to benefits based on the employee's years of service and compensation. CTWS employees hired on or after January 1, 2009, are entitled to an additional 1.5% of eligible compensation to their company sponsored savings plan.

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

The components of net periodic benefit costs for the defined benefit plans and other postretirement benefits for the three and nine months ended September 30, 2023 and 2022 are as follows:

| | Pension Benefits | | Other Benefits | |
|------------------------------------|----------------------------------|--------------|----------------|------------|
| | Three months ended September 30, | | | |
| | 2023 | 2022 | 2023 | 2022 |
| Service cost | \$ 1,892 | 2,397 | \$ 160 | 255 |
| Interest cost | 3,557 | 2,642 | 317 | 218 |
| Expected return on assets | (3,442) | (4,823) | (217) | (221) |
| Unrecognized actuarial loss | 554 | 1,257 | (87) | (75) |
| Amortization of prior service cost | 4 | 4 | — | — |
| Total | <u>\$ 2,565</u> | <u>1,477</u> | <u>\$ 173</u> | <u>177</u> |

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| | Pension Benefits | | Other Benefits | |
|------------------------------------|--|--------------|-----------------------|-------------|
| | Nine months ended September 30, | | | |
| | 2023 | 2022 | 2023 | 2022 |
| Service cost | \$ 5,676 | 7,191 | \$ 480 | 765 |
| Interest cost | 10,672 | 7,925 | 951 | 656 |
| Expected return on assets | (11,580) | (14,469) | (651) | (663) |
| Unrecognized actuarial loss | 1,662 | 3,772 | (263) | (226) |
| Amortization of prior service cost | 11 | 12 | — | — |
| Total | \$ 6,441 | 4,431 | \$ 517 | 532 |

In 2023, SJW Group expects to make required and discretionary cash contributions of up to \$ 8,653 to the pension plans and other postretirement benefits. For the three and nine months ended September 30, 2023, SJW Group has made \$3,567 and \$7,627, respectively, of contributions to such plans.

Note 8. Equity Plans

SJW Group's long-term incentive plans 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 subsidiary the opportunity to acquire an equity interest in SJW Group. SJW Group also maintains stock plans in connection with its acquisition of CTWS which are no longer granting new stock awards. In addition, shares are issued to employees under SJW Group's employee stock purchase plan. As of September 30, 2023, 150,882 shares are issuable upon the vesting of outstanding restricted stock units and deferred restricted stock units and an additional 1,136,979 shares are available for award issuances under the long-term incentive plans.

On April 26, 2023, SJW Group adopted the successor plans, the 2023 Long-Term Incentive Plan and the 2023 Employee Stock Purchase Plan, to replace the Amended and Restated Long-Term Incentive Plan (the, "Predecessor Incentive Plan") and the 2014 Employee Stock Purchase Plan (the, "Predecessor ESPP"), respectively. The Predecessor Incentive Plan terminated on April 23, 2023 and the Predecessor ESPP terminated on July 31, 2023. Each outstanding award under the Predecessor Incentive Plan will remain outstanding under the Predecessor Incentive Plan and shall be governed solely by the terms of the documents evidencing such awards. The 2023 Long-Term Incentive Plan reserves a total of 1,142,000 shares of SJW Group's common stock for issuance to 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 SJW Group and its subsidiaries. The 2023 Employee Stock Purchase Plan reserves for a total of 500,000 shares of SJW Group's common stock for issuance for eligible employees to purchase common stock at a discount through accumulated payroll deductions. Remaining reserves for both of the predecessor plans were terminated with the adoption of the successor plans.

A summary of compensation costs charged to income, by award type, and proceeds from the ESPP, are presented below for the three and nine months ended September 30, 2023 and 2022:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|--------------|--|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| Compensation costs charged to income: | | | | |
| ESPP | \$ 187 | 184 | \$ 378 | 369 |
| Restricted stock and deferred restricted stock | 1,051 | 1,214 | 3,198 | 3,622 |
| Total compensation costs charged to income | \$ 1,238 | 1,398 | \$ 3,576 | 3,991 |
| ESPP proceeds | \$ 1,061 | 1,042 | \$ 2,141 | 2,091 |

Restricted Stock and Deferred Restricted Stock

For the three months ended September 30, 2023 and 2022, SJW Group granted 968 and 1,723, respectively, one year and three year service-based restricted stock awards with a weighted-average grant date fair value per unit of \$63.96 and \$62.56, respectively. For the nine months ended September 30, 2023 and 2022, SJW Group granted 38,310 and 45,726, respectively, one year and three year service-based restricted stock awards with a weighted-average grant date fair value per unit of \$76.88 and \$65.31, respectively.

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For the three months ended September 30, 2023, no performance-based or market-based restricted stock awards were granted. For the three months ended September 30, 2022, SJW Group granted 2,193 target units performance-based and market-based restricted stock awards with a weighted-average grant date fair value per unit of \$69.70. For the nine months ended September 30, 2023 and 2022, SJW Group granted 31,345 and 35,846 target units, respectively, performance-based and market-based restricted stock awards granted with a weighted-average grant date fair value per unit of \$80.05 and \$70.31, respectively. Based upon actual attainment relative to the target performance metric, the number of shares issuable can range between 0% to 150% of the target number of shares for performance-based restricted stock awards, or between 0% and 200% of the target number of shares for market-based restricted stock awards.

As of September 30, 2023, the total unrecognized compensation costs related to restricted and deferred restricted stock plans was \$ 5,734. This cost is expected to be recognized over a weighted-average period of 1.81 years.

Employee Stock Purchase Plan

SJW Group's recorded expenses for its ESPP were \$ 81 and \$277 for the three and nine months ended September 30, 2023, respectively, and \$ 94 and \$276 for the three and nine months ended September 30, 2022, respectively. The total unrecognized compensation costs related to the semi-annual offering period that ends January 31, 2024, for the employee stock purchase plan is approximately \$130. This cost is expected to be recognized during the fourth quarter of 2023.

Note 9. Segment and Non-Tariffed Business Reporting

SJW Group is a holding company with four subsidiaries: (i) SJWC, (ii) SJWTX Holdings, Inc., a holding company for TWC its consolidated variable interest entity, Acequia Water Supply Corporation, TWOS and TWR, (iii) SJW Land Company and its consolidated variable interest entity, 444 West Santa Clara Street, L.P., which operated commercial building rentals, and (iv) SJWNE LLC, a holding company for CTWS and its subsidiaries, CWC, MWC, NEWUS and Chester Realty, Inc. SJWC, SJWTX Holdings, Inc. and SJWNE LLC are water utility operations with both regulated and non-tariffed businesses. SJW Group's reportable segments have been determined based on information used by the chief operating decision maker. SJW Group's chief operating decision maker includes the Chairman, President and Chief Executive Officer, and his executive staff. The first segment provides water utility and utility-related services to its customers through SJW Group's subsidiaries, SJWC, CWC, TWC, MWC, and NEWUS together referred to as "Water Utility Services". The second segment consists of property management and investment activity conducted by SJW Land Company and Chester Realty, Inc., referred to as "Real Estate Services."

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

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| For Three Months Ended September 30, 2023 | | | | | | | |
|---|-------------------------------|---------------------|-----------------------------|---------------------|----------------------|---------------------|------------------|
| | Water Utility Services | | Real Estate Services | | All Other (1) | | SJW Group |
| | Regulated | Non-tariffed | Regulated | Non-tariffed | Regulated | Non-tariffed | Total |
| | \$ 199,537 | 3,876 | 1,430 | — | 199,537 | 5,306 | 204,843 |
| Operating revenue | | | | | | | |
| Operating expense | 144,102 | 2,337 | 691 | 1,107 | 144,102 | 4,135 | 148,237 |
| Operating income (loss) | 55,435 | 1,539 | 739 | (1,107) | 55,435 | 1,171 | 56,606 |
| Net income (loss) | 37,545 | 2,198 | 563 | (4,084) | 37,545 | (1,323) | 36,222 |
| Depreciation and amortization | 26,147 | 84 | 1 | 223 | 26,147 | 308 | 26,455 |
| Interest on long-term debt and other interest expense | 10,839 | 112 | — | 5,793 | 10,839 | 5,905 | 16,744 |
| Provision (benefit) for income taxes | 5,933 | 428 | 196 | (1,996) | 5,933 | (1,372) | 4,561 |
| Assets | 3,706,359 | 43,872 | 44,560 | 48,637 | 3,706,359 | 137,069 | 3,843,428 |
| For Three Months Ended September 30, 2022 | | | | | | | |
| | Water Utility Services | | Real Estate Services | | All Other (1) | | SJW Group |
| | Regulated | Non-tariffed | Regulated | Non-tariffed | Regulated | Non-tariffed | Total |
| | 171,044 | 3,463 | 1,474 | — | 171,044 | 4,937 | 175,981 |
| Operating revenue | | | | | | | |
| Operating expense | 134,739 | 2,092 | 975 | 573 | 134,739 | 3,640 | 138,379 |
| Operating income (loss) | 36,305 | 1,371 | 499 | (573) | 36,305 | 1,297 | 37,602 |
| Net income (loss) | 29,176 | (10) | 367 | (4,499) | 29,176 | (4,142) | 25,034 |
| Depreciation and amortization | 24,919 | 84 | 302 | 224 | 24,919 | 610 | 25,529 |
| Interest on long-term debt and other interest expense | 9,111 | — | — | 5,079 | 9,111 | 5,079 | 14,190 |
| Provision (benefit) for income taxes | 103 | 392 | 128 | (400) | 103 | 120 | 223 |
| Assets | 3,498,396 | 5,302 | 43,017 | 57,989 | 3,498,396 | 106,308 | 3,604,704 |
| For Nine Months Ended September 30, 2023 | | | | | | | |
| | Water Utility Services | | Real Estate Services | | All Other (1) | | SJW Group |
| | Regulated | Non-tariffed | Regulated | Non-tariffed | Regulated | Non-tariffed | Total |
| | 485,334 | 9,398 | 4,293 | — | 485,334 | 13,691 | 499,025 |
| Operating revenue | | | | | | | |
| Operating expense | 375,647 | 5,540 | 2,251 | 2,645 | 375,647 | 10,436 | 386,083 |
| Operating income (loss) | 109,687 | 3,858 | 2,042 | (2,645) | 109,687 | 3,255 | 112,942 |
| Net income (loss) | 71,277 | 3,412 | 1,532 | (10,183) | 71,277 | (5,239) | 66,038 |
| Depreciation and amortization | 77,644 | 253 | 305 | 670 | 77,644 | 1,228 | 78,872 |
| Interest on long-term debt and other interest expense | 32,232 | 112 | — | 16,569 | 32,232 | 16,681 | 48,913 |
| Provision (benefit) for income taxes | 8,759 | 1,071 | 581 | (6,284) | 8,759 | (4,632) | 4,127 |
| Assets | 3,706,359 | 43,872 | 44,560 | 48,637 | 3,706,359 | 137,069 | 3,843,428 |

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| | For Nine Months Ended September 30, 2022 | | | | | | |
|---|--|--------------|----------------------|--------------|---------------|--------------|-----------|
| | Water Utility Services | | Real Estate Services | | All Other (1) | | SJW Group |
| | Regulated | Non-tariffed | Non-tariffed | Non-tariffed | Regulated | Non-tariffed | Total |
| Operating revenue | 435,823 | 9,305 | 4,196 | — | 435,823 | 13,501 | 449,324 |
| Operating expense | 355,620 | 7,868 | 2,799 | 2,444 | 355,620 | 13,111 | 368,731 |
| Operating income (loss) | 80,203 | 1,437 | 1,397 | (2,444) | 80,203 | 390 | 80,593 |
| Net income (loss) | 51,656 | 441 | 998 | (12,766) | 51,656 | (11,327) | 40,329 |
| Depreciation and amortization | 73,888 | 2,821 | 903 | 730 | 73,888 | 4,454 | 78,342 |
| Interest on long-term debt and other interest expense | 27,676 | — | — | 14,484 | 27,676 | 14,484 | 42,160 |
| Provision (benefit) for income taxes | 4,844 | 398 | 341 | (1,925) | 4,844 | (1,186) | 3,658 |
| Assets | 3,498,396 | 5,302 | 43,017 | 57,989 | 3,498,396 | 106,308 | 3,604,704 |

(1) The "All Other" category for the three and nine months ended September 30, 2023 and 2022, includes the accounts of SJW Group, SJWNE LLC, CTWS and SJWTX Holdings, Inc. on a stand-alone basis.

Note 10. Acquisitions

On January 13, 2023, TWC reached an agreement to acquire KT Water Development Ltd. ("KT Water Development") and SJWTX Holdings, Inc. reached an agreement to acquire KT Water Resources L.P. ("KT Water Resources"). The agreement between SJWTX Holdings, Inc. and KT Water Resources, LP, was assigned to TWR prior to closing. KT Water Development is an investor-owned water utility providing water to approximately 1,725 people through over 570 service connections in the Rockwall Ranch subdivision in southern Comal County, Texas. KT Water Resources L.P. is a wholesale groundwater resource supplier to KT Water Development formed to develop wholesale water supplies for the fast-growing utilities of Comal County, Texas. The Public Utility Commission of Texas ("PUCT") approved the proposed KT Water Development acquisition on July 24, 2023. The acquisition of KT Water Resources did not require PUCT approval. Both transactions closed on August 14, 2023. Further information regarding each of the acquisitions is set forth below.

KT Water Development

The purchase price of KT Water Development was \$ 7,338, all of which was cash, and was determined in accordance with a fair market value process defined under the Texas Water Code. The transaction was accounted for as a business combination in accordance with Accounting Standards Codification ("ASC") Topic 805—"Business Combinations." Based on the preliminary purchase price allocation, the transaction consideration was allocated to utility plant. The final allocation will be completed within one year from the acquisition date. Transaction costs were not material. The results of KT Water Development are included in SJW Group's consolidated statements of comprehensive income since the acquisition date and were not material. Pro forma financial information has not been presented because the acquisition was not material to SJW Group's consolidated financial statements.

KT Water Resources

The total purchase price of KT Water Resources of \$ 39,891 and consisted of a \$ 24,491 up-front cash payment and an obligation for a post-closing production payment with an acquisition date fair value of \$15,400. Considering transaction costs of \$170, the total cost of the acquisition was \$ 40,061. The KT Water Resources acquisition was accounted for as an asset acquisition in accordance with ASC Topic 805.

The total cost was allocated as follows based on the fair values of the assets acquired: \$ 28,386 to other intangible asset, \$ 11,684 to nonutility property, and \$9 to other current liabilities. The other intangible asset represents indefinite life water rights that will not be amortized, but instead will be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. The nonutility property consists of wells, land, easements, and construction in progress.

The post-closing production payment represents an obligation to pay a total amount of \$ 29,000 to the seller over a period up to 29 years. The repayment schedule is based on the quantity of groundwater produced from the acquired wells, subject to certain provisions in the purchase agreement. The fair value of the post-closing payment as of the acquisition date was determined by discounting forecasted repayments based on management's estimates of future groundwater production. The difference

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between the fair value of \$15,400 and the gross obligation of \$29,000 is recorded as a debt discount and is being amortized as interest expense using the effective interest method over the life of the obligation. The post-closing production payment obligation is classified as long-term debt in the condensed consolidated balance sheets.

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

The information in this Item 2 should be read in conjunction with the financial information and the notes thereto included in Item 1 of this Form 10-Q and the condensed consolidated financial statements and notes thereto and the related "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in SJW Group's Annual Report on Form 10-K for the year ended December 31, 2022.

This report contains forward-looking statements within the meaning of the federal securities laws relating to future events and future results of SJW Group and its subsidiaries that are based on current expectations, estimates, forecasts, and projections about SJW Group and its subsidiaries and the industries in which SJW Group and its subsidiaries operate and the beliefs and assumptions of the management of SJW Group. Actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors. For more information about such forward-looking statements, including some of the factors that may affect our actual results, please see our disclosures under "Forward-Looking Statements," and elsewhere in this Form 10-Q, including Part II, Item 1A under "Risk Factors" as well as the disclosures under Part I, Item 1A in SJW Group's Annual Report on Form 10-K for the year ended December 31, 2022 under "Risk Factors."

General:

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

SJWC is a public utility in the business of providing water service to approximately 233,000 connections that serve a population of approximately one million people in an area comprising approximately 139 square miles in the metropolitan San Jose, California area. The principal business of SJWC consists of the production, purchase, storage, purification, distribution, wholesale, and retail sale of water. SJWC provides water service to customers in portions of the cities of San Jose and Cupertino and in the cities of Campbell, Monte Sereno, and Saratoga and the Town of Los Gatos, and adjacent unincorporated territories, all in the County of Santa Clara in the State of California. SJWC distributes water to customers in accordance with accepted water utility methods which include pumping from storage and gravity feed from high elevation reservoirs. SJWC also provides non-tariffed services under agreements with municipalities and other utilities. These non-tariffed services include water system operations, maintenance agreements, and antenna site leases.

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

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

SJWNE LLC is the holding company for Connecticut Water Service, Inc. ("CTWS"). CTWS, headquartered in Connecticut, serves as a holding company for water utility companies providing water service to approximately 142,000 connections that serve a population of approximately 462,000 people in 81 municipalities throughout Connecticut and Maine and more than 3,000 wastewater connections in Southbury, Connecticut. The subsidiaries held by CTWS that provide utility water services are The Connecticut Water Company ("CWC") and The Maine Water Company ("MWC"). The remaining two CTWS subsidiaries are Chester Realty, Inc., a real estate company in Connecticut, and New England Water Utility Services, Inc., which provides contract water and sewer operations and other water related services.

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

In the third quarter of 2023, the corporate reorganization of our water services organization in Texas was completed. SJWTX Holdings, Inc. is the holding company for SJWTX, Inc., doing business as The Texas Water Company ("TWC"), Texas Water Operation Services LLC ("TWOS") and Texas Water Resources, LLC ("TWR"). TWC is a public utility in the business of providing water service to approximately 28,000 connections that serve approximately 85,000 people and approximately 900 wastewater connections. TWC's service area comprises more than 271 square miles in Bandera, Blanco, Comal, Hays,

Kendall, Medina and Travis Counties in the growing region between San Antonio and Austin, Texas. Comal, Kendall and Hays counties are three of the top five growth counties in the United States. TWC also holds a 25% equity interest in Acequia Water Supply Corporation ("Acequia"). Acequia has been determined to be a variable interest entity within the scope of Accounting Standards Codification Topic 810 with TWC as the primary beneficiary. As a result, Acequia has been consolidated with TWC. TWOS was created for non-tariffed service operations and Texas Water Resources, LLC ("TWR") was formed to hold wholesale water supply assets.

SJW Land Company and Chester Realty, Inc. own undeveloped land and operate commercial buildings in Tennessee, California and Connecticut. SJW Land Company and Chester Realty, Inc. owned the following real properties during the nine months ended September 30, 2023:

| Description | Location | Acreage | Square Footage | % for Nine months ended September 30, 2023 of Real Estate Services | |
|----------------------------------|----------------------|---------|----------------|--|---------|
| | | | | Revenue | Expense |
| Warehouse building | Knoxville, Tennessee | 30 | 361,500 | 53 % | 46 % |
| Commercial building | Knoxville, Tennessee | 15 | 135,000 | 46 % | 54 % |
| Undeveloped land and parking lot | Knoxville, Tennessee | 10 | N/A | N/A | N/A |
| Undeveloped land | San Jose, California | 101 | N/A | N/A | N/A |
| Commercial building | Clinton, CT | 22 | 9,000 | 1 % | — % |
| Commercial building | Guilford, CT | 1 | 1,300 | — % | — % |

Business Strategy for Water Utility Services:

SJW Group focuses its business initiatives in three strategic areas:

- (1) Regional regulated water utility operations to support the health, safety and quality of life of our customers;
- (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 ("PURPA") in Connecticut, the Public Utilities Commission of Texas ("PUCT") in Texas, and the Maine Public Utilities Commission ("MPUC") in Maine; and
- (3) Out-of-region water and utility related services.

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

Please also see [Note 10](#) of "Notes to Condensed Consolidated Financial Statements" for SJW Group's recent acquisition activities.

Real Estate Services:

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

Critical Accounting Policies:

The discussion and analysis of our financial condition and results of operations is based on the accounting policies used and disclosed in our 2022 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, 2022, that was filed with the Securities and Exchange Commission on February 24, 2023.

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, 2022. Our significant accounting policies are described in the notes to the 2022 consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2022. There have been no changes to our critical or significant accounting policies during the three and nine ended September 30, 2023.

Results of Operations:

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

Overview

SJW Group's consolidated net income for the three months ended September 30, 2023 was \$36,222, an increase of \$11,188, or approximately 45%, from \$25,034 for the same period in 2022. The increase in net income was primarily driven by rate increases in California and Maine, and the delay in SJWC's 2022 General Rate Case and an increase from higher customer usage driven primarily by weather conditions and the end of California mandatory water conservation requirements, offset by higher water production expenses, increase in income tax expense, less earnings from regulatory mechanisms and higher debt interest expenses. SJW Group's consolidated net income for the nine months ended September 30, 2023 was \$66,038, an increase of \$25,709, or approximately 64%, from \$40,329 for the same period in 2022. The increase in net income was primarily driven by rate increases in California and Maine, and the delay in SJWC's 2022 General Rate Case, a decrease in income taxes due to the partial release of an uncertain tax position reserve, and a decrease in depreciation and amortization primarily due to a one-time impact related to amortization on certain Cupertino concession assets in 2022 net of increases in depreciation related to new utility plant additions, offset by higher water production expenses, higher debt interest expenses, and a one-time gain on sale of nonutility properties of \$5,532 in 2022.

Operating Revenue

| | Operating Revenue by Segment | | | |
|--------------------------------|----------------------------------|----------------|---------------------------------|----------------|
| | Three months ended September 30, | | Nine months ended September 30, | |
| | 2023 | 2022 | 2023 | 2022 |
| Water Utility Services | \$ 203,413 | 174,507 | \$ 494,732 | 445,128 |
| Real Estate Services | 1,430 | 1,474 | 4,293 | 4,196 |
| Total operating revenue | \$ 204,843 | 175,981 | \$ 499,025 | 449,324 |

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

| | Three months ended | | | Nine months ended | | |
|--|--------------------|---------------------|------------------|-------------------|---------------------|---------------|
| | September 30, | | September 30, | September 30, | | September 30, |
| | 2023 vs. 2022 | Increase/(decrease) | | 2023 vs. 2022 | Increase/(decrease) | |
| Water Utility Services: | | | | | | |
| Consumption changes (including unbilled utility revenue) | \$ 8,307 | 5 % | \$ (7,338) | (2) % | | |
| Increase in customers | 1,075 | 1 % | 2,978 | 1 % | | |
| Rate increases | 22,624 | 12 % | 54,728 | 12 % | | |
| Balancing and memorandum accounts: | | | | | | |
| Monterey Water Revenue Adjustment Mechanism | (1,138) | (1) % | 448 | — % | | |
| Water Conservation Memorandum Account ("WCMA") | (3,970) | (2) % | (2,569) | — % | | |
| Other | 210 | — % | 754 | — % | | |
| Other regulatory mechanisms | 1,731 | 1 % | 586 | — % | | |
| Other | 67 | — % | 17 | — % | | |
| Real Estate Services | (44) | — % | 97 | — % | | |
| Total change in operating revenue | \$ 28,862 | 16 % | \$ 49,701 | 11 % | | |

Operating Expense

| | Operating Expense by Segment | | | |
|--------------------------------|----------------------------------|----------------|---------------------------------|----------------|
| | Three months ended September 30, | | Nine months ended September 30, | |
| | 2023 | 2022 | 2023 | 2022 |
| Water Utility Services | \$ 146,439 | 136,831 | \$ 381,187 | 363,488 |
| Real Estate Services | 691 | 975 | 2,251 | 2,799 |
| All Other | 1,107 | 573 | 2,645 | 2,444 |
| Total operating expense | \$ 148,237 | 138,379 | \$ 386,083 | 368,731 |

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

| | Three months ended | | | Nine months ended | | |
|---|--------------------|---------------------|------------------|-------------------|---------------------|---------------|
| | September 30, | | September 30, | September 30, | | September 30, |
| | 2023 vs. 2022 | Increase/(decrease) | | 2023 vs. 2022 | Increase/(decrease) | |
| Water production expenses: | | | | | | |
| Change in surface water use | \$ (1,143) | (1) % | \$ (11,187) | (3) % | | |
| Change in usage and new customers | 1,386 | 1 % | (9,899) | (3) % | | |
| Purchased water and groundwater extraction charge, energy price change and other production expenses, net | 10,044 | 7 % | 22,866 | 6 % | | |
| Balancing and memorandum accounts cost recovery | (1,249) | (1) % | 10,113 | 3 % | | |
| Total water production expenses | 9,038 | 6 % | 11,893 | 3 % | | |
| Administrative and general | 530 | — % | 2,250 | — % | | |
| Balancing and memorandum account cost recovery | (551) | — % | (1,865) | — % | | |
| Maintenance | (608) | — % | (1,838) | — % | | |
| Property taxes and other non-income taxes | 441 | — % | 850 | — % | | |
| Depreciation and amortization | 926 | 1 % | 530 | — % | | |
| Gain on sale of nonutility properties | 82 | — % | 5,532 | 2 % | | |
| Total change in operating expense | \$ 9,858 | 7 % | \$ 17,352 | 5 % | | |

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 Santa Clara Valley Water District ("Valley Water") under the terms of a master contract with Valley Water expiring in 2051. During normal rainfall years, purchased water provides approximately 40% to 50% of SJWC's annual production. An additional 40% to 50% of its water supply is pumped from the underground basin which is

subject to a groundwater extraction charge paid to Valley Water. Surface supply, which during a normal rainfall year satisfies about 6% to 8% of SJWC's annual water supply needs, provides approximately 1% of its water supply in a dry year and approximately 14% in a wet year. In dry years, the decrease in availability of water from surface run-off and diversion and the corresponding increase in purchased and pumped water increases production expenses substantially. The opposite is also true where water production expenses decrease in wet years. In both instances, the impacts of surface water, purchased water, groundwater charges and purchased power are now tracked in SJWC's Full Cost Balancing Account authorized in the 2022 GRC Decision.

As of September 30, 2023, Santa Clara County's drought classification remained at "None." The classification has remained the same since the first quarter of 2023, when it changed from "Abnormally Dry" due to winter storms. As a result, this year Valley Water received 100% allocations of water from the State Water Project ("SWP") and the U.S Bureau of Reclamation's Central Valley Project ("CVP"). In prior year period, SWP allocation was 5% of contracted amounts and the CVP allocation was reduced to the Public Health and Safety limit due to an exceptionally dry period beginning in 2022. On October 1, 2023, Valley Water's 10 reservoirs were 29% of capacity, or 76% of restricted capacity, with 15.4 billion gallons of water in storage. Valley Water's largest reservoir, Anderson, remained drained for a dam seismic retrofit project. Valley Water also reported that the managed groundwater recharge from January to June in the Santa Clara Plain was 170% of the five-year average. The groundwater level in the Santa Clara Plain is approximately 23 feet higher than September 2022. According to Valley Water, the projected total groundwater storage at the end of 2023 is expected to be in the Normal Stage of the Water Shortage Contingency Plan.

As of September 30, 2023, SJWC's Lake Elsman was 77.4% of capacity with 1.55 billion gallons of water, approximately 272.0% of the five-year seasonal average. In addition, the rainfall at SJWC's Lake Elsman was measured at 0.15 inches for the period from July 1, 2023 through September 30, 2023, which is 40.5% of the five-year average. SJWC's Montevina Water Treatment Plant treated 3.4 billion gallons of water through the third quarter, which is 190.2% of the five-year average. SJWC's Saratoga Water Treatment Plant treated 0.1 billion gallons of water through the third quarter, which is 78% of the five-year average. The Saratoga Water Treatment Plant was taken out of service and will remain offline until the next rain season. SJWC believes that its various sources of water supply will be sufficient to meet customer demand through the remainder of 2023.

On April 11, 2023, Valley Water rescinded its water shortage emergency and 15% mandatory conservation target. Valley Water also established a 15% voluntary call for conservation and retained certain watering and water waste rules in recognition of precipitation volatility and reduced local storage. On the same day, SJWC ended its Mandatory Conservation Plan, which included drought allocations and surcharges, and lowered its drought response from Stage 3 to Stage 1. On October 2, 2023, SJWC's request to continue its WCMA and Water Conservation Expense Memorandum Account ("WCEMA") under the voluntary call for conservation was approved effective April 20, 2023. SJWC continues to work with Valley Water to promote conservation, educate customers on responsible water use practices, and collaborate on long-range water supply planning.

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

TWC's water supply consists of groundwater from wells and purchased treated and untreated raw water from local water agencies. TWC 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 TWC with an aggregate of 7,650 acre-feet of water per year from Canyon Lake at prices that may be adjusted periodically by GBRA. TWC also has raw water supply agreements with the Lower Colorado River Authority and West Travis Public Utility Agency expiring in 2059 and 2046, respectively, to provide for 350 acre-feet of water per year from Lake Austin and the Colorado River, respectively, at prices that may be adjusted periodically by the agencies. Forty active 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.

In August 2023, TWOS acquired eight wells and the water rights of KT Water Resources LLC. These wells have been projected to yield an additional 6,000 acre-feet per year or more.

In July 2023, TWC implemented its Drought Management Plan as approved by the PUCT as a result of persistent drought conditions, decreasing water levels in Canyon Lake and groundwater wells, and water production levels operating at near-capacity level.

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

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

| | Three months ended | | | | Nine months ended | | | |
|-----------------|--------------------|-------------|-------------------------|----------------------|-------------------|-------------|-------------------------|----------------------|
| | September 30, | | Increase/ (decrease) | % of Total Change | September 30, | | Increase/ (decrease) | % of Total Change |
| | 2023 | 2022 | | | 2023 | 2022 | | |
| Purchased water | 6.7 | 7.1 | 7.1 | (0.4) | (3) % | 15.4 | 16.1 | (0.7) % |
| Groundwater | 4.8 | 2.9 | 4.9 | (0.1) | (1) % | 10.0 | 13.8 | (3.8) % |
| Surface water | 3.1 | 4.9 | 2.9 | 0.2 | 1 % | 10.0 | 8.2 | 1.8 % |
| Reclaimed water | 0.4 | 0.3 | 0.3 | 0.1 | 1 % | 0.6 | 0.7 | (0.1) % |
| | <u>15.0</u> | <u>15.2</u> | <u>15.2</u> | <u>(0.2)</u> | <u>(2) %</u> | <u>36.0</u> | <u>38.8</u> | <u>(2.8) %</u> |
| | | | | | | | | |

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

SJWC's unaccounted-for water on a 12-month-to-date basis for September 30, 2023 and 2022 approximated 7.9% and 8.6%, respectively, as a percentage of total production. The unaccounted-for water estimate is based on the results of past experience and the impact of flows through the system, partially offset by SJWC's main replacements and lost water reduction programs.

CTWS's unaccounted-for water on a 12-month-to-date basis for September 30, 2023 and 2022 approximated 13.0% and 14.2% for each of the respective periods, as a percentage of total production. The unaccounted-for water estimate is based on the results of past experience and the impact of flows through CTWS's systems, unadjusted for any required system flushing, partially offset by Water Infrastructure Conservation Adjustment and Water Infrastructure Surcharge main replacement programs and lost water reduction initiatives.

Water Production Expenses

The change in water production expenses of \$9,038 for the three months ended September 30, 2023, compared to the same period in 2022, was primarily attributable to increases in average per unit costs for purchased water, groundwater extraction, and other production expenses and increase in customer usage, offset by decreases in SJWC's regulatory Full Cost Balancing Account and an increase in available surface water for SJWC. Effective July 1, 2022, Valley Water increased the unit price of purchased water by approximately 14% and the groundwater extraction charge by approximately 15%.

The change in water production expenses of \$11,893 for the nine months ended September 30, 2023, compared to the same period in 2022, was primarily attributable to increases in average per unit costs for purchased water, groundwater extraction, and other production expenses and increases in SJWC's regulatory Full Cost Balancing Account, offset by an increase in available surface water for SJWC and a decrease in customer usage. Effective July 1, 2022, Valley Water increased the unit price of purchased water by approximately 14% and the groundwater extraction charge by approximately 15%.

Other Operating Expenses

Operating expenses, excluding water production expenses, increased \$820 for the three months ended September 30, 2023, compared to the same period in 2022. The increase was primarily attributable to increases in depreciation related to new utility plant additions and an increase in taxes other than income taxes, offset by a decrease in maintenance expenses due to the timing of contract work and materials expenses.

Operating expenses, excluding water production expenses, increased \$5,459 for the nine months ended September 30, 2023, compared to the same period in 2022. The increase was primarily attributable to the \$5,450 gain on sale of nonutility properties recorded in the prior year, partially offset by decreases in depreciation and amortization due to a \$2,400 one-time impact related to amortization on certain Cupertino concession assets net of increases in depreciation related to new utility plant additions. In addition, there were decreases in maintenance expenses due to the timing of contract work and materials expenses.

Other (Expense) Income

For the three months ended September 30, 2023, compared to the same period in 2022, the change in other (expense) income was primarily due to an increase in interest expense due to an increase in long-term debt balances, higher interest rates on lines of credit borrowings and an increase in pension non-service cost, offset by the changes in the Rabbi Trust and life insurance policy values.

For the nine months ended September 30, 2023, compared to the same period in 2022, the change in other (expense) income was primarily due to an increase in interest expense due to an increase in long-term debt balances, higher interest rates on lines of credit borrowings and an increase in pension non-service cost, offset by the changes in the Rabbi Trust and life insurance policy values and a true-up on prior real estate sale transactions.

Provision for Income Taxes

For the three and nine months ended September 30, 2023, compared to the same period in 2022, income tax expense increased \$4,338 and \$469, respectively. The increase in income tax expense for the three months ended September 30, 2023 was primarily due to a higher pre-tax income.

The effective consolidated income tax rates were 11% and 1% for the three months ended September 30, 2023 and 2022, respectively, and 6% and 8% for the nine months ended September 30, 2023 and 2022, respectively. The higher effective tax rate for the three months ended September 30, 2023 was primarily due to the tax benefit relating to a tax accounting method change recorded in the third quarter of 2022. There was no such benefit recorded in the third quarter of 2023. The lower effective tax rate for the nine months ended September 30, 2023 was primarily due to higher flow-through tax benefits.

Regulation and Rates

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

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

California Regulatory Affairs

On May 3, 2021, SJWC filed Application No. 21-05-004 requesting authority to adjust its cost of capital for the period from January 1, 2022 through December 31, 2024. The request seeks a revenue increase of \$6,418 or 1.61% in 2022. The application also proposes a rate of return of 8.11%, an increase from the current rate of 7.64%, a decrease in the average cost of debt rate from 6.20% to 5.48%, and a return of equity of 10.30% which is an increase from the current rate of 8.90%. In addition, the request seeks to adjust SJWC's currently authorized capital structure of approximately 47% debt and 53% equity to approximately 45% debt and 55% equity. Intervenors in this proceeding, namely the Public Advocates Office and Water Rate Advocates for Transparency, Equity, and Sustainability, have suggested a lower return on equity while the latter has also suggested a higher cost of debt and different capital structure as part of their testimonies. On June 29, 2023, the CPUC approved Decision No. 23-06-025 in this proceeding. The decision authorizes a rate of return of 7.28% based on a return on equity of 8.80%, a cost of debt of 5.46%, and a capital structure of approximately 45% debt and 55% equity. The CPUC also authorized continuation of the Water Cost of Capital Mechanism ("WCCM") in the same decision. The WCCM provides for an adjustment in SJWC's return on equity and cost of debt if the average Moody's Aa utility bond index rate between October 1, 2021 and September 30, 2022 varies by more than 100 basis points when compared to the same period from the prior year. The index rate difference between those periods increased 103 basis points, thereby triggering the WCCM. Accordingly, SJWC filed a Tier 2 Advice Letter No. 598 on June 30, 2023, which was subsequently approved with an effective date of July 31, 2023. On July 31, 2023, SJWC filed a Tier 1 Advice Letter No. 599 to implement new rates. The new rates became effective prospectively on the date of the filing and reflect the WCCM-adjusted return on equity of 9.31%, a cost of debt of 5.26%, and an overall rate of return of 7.47%. Advice Letter No. 599 was approved with an effective date of July 31, 2023. Between October 1, 2022 and September 30, 2023, the index rate increased approximately 140 basis points, surpassing the required WCCM trigger. On October 13, 2023, SJWC filed Advice Letter No. 601 to trigger the WCCM for 2024. SJWC expects a WCCM-adjusted return on equity of approximately 10.01%, less a 20 basis point reduction due to the reimplementation of the WCMA and WCEMA, to become effective on January 1, 2024.

SJWC filed Advice Letter No. 585 on November 10, 2022, to recover \$20,554 in the Interim Rates Memorandum Account in accordance with the 2022 GRC Decision. Advice Letter No. 585 was approved with an effective date of January 1, 2023.

SJWC filed Advice Letter No. 586 on November 18, 2022, to increase the authorized revenue requirement by \$18,418 or 4% for the escalation year increase in accordance with the 2022 GRC Decision. Advice Letter No. 586 was approved with an effective date of January 1, 2023.

SJWC filed Advice Letter No. 590 on April 6, 2023, to recover a \$14,196 under-collection in its Monterey Water Revenue Adjustment Mechanism Balancing Account as of March 31, 2023. SJWC proposed that this amount be recovered via a 12-month volume surcharge. Advice Letter No. 590 was approved with an effective date of May 8, 2023.

SJWC filed Advice Letter No. 591 on April 11, 2023, to discontinue its drought allocation surcharges and move from Stage 3 to Stage 1 of its Schedule 14.1. Advice Letter No. 591 was approved with an effective date of April 11, 2023.

SJWC filed Advice Letter No. 592 on April 20, 2023, to continue its WCMA and WCEMA under Valley Water's voluntary call for 15% conservation. On October 2, 2023, Advice Letter No. 592 was approved with an effective date of April 20, 2023.

SJWC filed Advice Letter No. 596 on May 31, 2023, to increase the authorized revenue requirement by \$27,607 to offset the increases to purchased potable water charges, the groundwater extraction fee, and purchased recycled water charges from its water wholesalers effective July 1, 2023. Advice Letter No. 596 was approved with an effective date of July 1, 2023.

Connecticut Regulatory Affairs

On January 26, 2023, CWC filed for a Water Infrastructure Conservation Adjustment ("WICA") increase of \$3,253 in annualized revenues for \$27,775 in completed projects. PURA approved CWC's application on March 22, 2023. On January 25, 2023, CWC filed its 2022 WICA reconciliation with PURA. The reconciliation, approved by PURA on March 29, 2023 and effective for 12 months beginning April 1, 2023, replaced the expiring 2021 reconciliation credit of 0.02% with a credit of 0.16%. The cumulative WICA surcharge as of April 1, 2023 is 6.19%, collecting \$6,544 on an annual basis.

On February 27, 2023, CWC filed its 2022 Water Revenue Adjustment mechanism ("WRA"). The mechanism reconciles 2022 revenues as authorized in the CWC's most recent rate case. The 2022 WRA, as approved by PURA on March 24, 2023 and effective for 12 months beginning on April 1, 2023, imposes a 4.97% surcredit on customer bills to refund the 2022 revenue over-collection.

On July 27, 2023, CWC filed for a WICA increase of \$1,259 in annualized revenues for \$11,464 in completed projects. PURA approved the application, and effective October 1, 2023, the cumulative WICA surcharge is 7.38%.

On October 3, 2023, CWC filed an application with PURA to adjust customer rates. If PURA approves the request as proposed, annual revenues of CWC will increase by approximately \$21,400, or 18.1%, over current authorized revenues and would be effective on or about July 1, 2024.

Texas Regulatory Affairs

TWC has no current general rate case pending. However, it filed its application to establish a System Improvement Charge ("SIC") with the PUCT under Docket No. 54430 on December 30, 2022. This filing will allow TWC to add certain utility plant additions made since 2020 to its rate base, thereby increasing revenue and avoiding the immediate need for a general rate case. The SIC is projected to increase TWC's water revenue by \$1,596 and sewer revenue by \$29 within one year of the approval from the PUCT. On October 17, 2023, the PUCT found the application administratively complete. Once the PUCT files the final order approving the SIC, TWC will be required to file a general rate case within four years. TWC will incrementally increase its SIC annually until its next rate case. TWC expects to receive the final order during the first quarter of 2024. Notwithstanding the SIC filing, TWC will continue to file its annual adjustments for the Water Pass-through Charges ("WPC") for Canyon Lake, Deer Creek and Kendall West customers. All water supply cost increases are recoverable when the next annual WPC adjustment for each system is filed.

On April 10, 2023, TWC filed an application with the PUCT to acquire the Elm Ridge water system that serves 21 residential customers. TWC has asked for filed rate doctrine treatment, which allows the acquiring utility's current rates to be applied at the time of acquisition. TWC expects to receive the PUC's approval to close on the acquisition during the fourth quarter of 2023.

On May 17, 2023, TWC filed its application with the PUCT for an internal stock transfer. As part of an internal restructure, SJW Group would transfer 100% of the stock held in TWC to SJWTX Holdings, Inc. On September 18, 2023, the PUCT gave its approval for the transaction to proceed. SJW Group completed the transfer on September 18, 2023.

On July 24, 2023, the PUCT approved TWC's application to acquire KT Water Development Ltd. KT Water Development Ltd. provides service to approximately 570 residential water connections. On August 14, 2023, TWC closed on the acquisition. The PUCT's final decision that transfers the CCN to TWC is expected in the fourth quarter of 2023, which is when we anticipate approval of our request for fair market value and filed rate doctrine treatment.

Maine Regulatory Affairs

The rates approved in the Biddeford Saco division by the April 5, 2022 stipulated agreement, which authorized a rate increase of \$6,313, or 72.5% went into effect on July 1, 2022. The Saco River Drinking Water Resource Center began supplying the water distribution system on June 16, 2022. As part of the stipulated agreement, MWC agreed to file a final phase of the rate case by April 1, 2023. The third filing was submitted on March 31, 2023. Step 3 of the planned multi-year rate filings for the Saco River Drinking Water Resource Center was filed in accordance with the Commission order on March 31, 2023. The filing requested an increase in revenue requirement of \$2,949, or 19.9% and requested that the increase be implemented over two years with a 12% increase effective July 1, 2023 followed by a 9% increase effective July 1, 2024 with a slight decrease in year three to reach the overall 19.9% requested. On August 25, 2023, the Commission issued an order granting a temporary rate increase of \$1,495 or 10% while the case and the Company's full request are litigated. A final decision is expected in the fourth quarter of 2023.

On February 2, 2023, MWC received final decisions from the MPUC on four general rate cases filed in 2022. The rate increases are retroactively effective for January 1, 2023 and authorize a \$692 increase in annual revenues. On February 28, 2022, MWC filed requests for general rate increases in the Camden-Rockland, Freeport, Millinocket and Oakland Divisions.

On June 30, 2023, MWC filed a Water Infrastructure Surcharge for the Camden-Rockland division. The requested surcharge is 2.34% or \$158. The Commission is expected to issue a decision regarding the surcharge in November 2023.

Liquidity:

Cash Flow from Operating Activities

During the nine months ended September 30, 2023, SJW Group generated cash flows from operations of approximately \$159,300, compared to approximately \$129,300 for the same period in 2022. Cash flow from operations is primarily generated by net income from revenue producing activities, adjusted for non-cash expenses for depreciation and amortization, deferred income taxes, stock-based compensation, allowance for equity funds used during construction, gains or losses on the sale of assets, and changes in working capital items. Cash flow from operations increased by approximately \$30,000. This increase was the result of a combination of the following factors: (1) general working capital and net income, adjusted for non-cash items, increased by \$37,100, (2) a decrease in payments of amounts previously invoiced and accrued including accrued production costs of \$5,000, and (3) increased tax accruals of \$2,500 compared to the prior period, offset by (4) a decrease of \$5,700 in regulatory assets primarily due to lower surcharge collections on balancing and memorandum accounts, (5) a decrease in collections from accounts receivable and accrued unbilled utility revenue of \$4,300, and (6) a decrease of \$4,600 in other changes primarily due to prior funds received from the State of California Water and Wastewater Arrearages Payment Program and the partial release of uncertain tax position reserve.

As of September 30, 2023, Water Utility Services' write-offs for uncollectible accounts represented 1% of its total revenue, increased from less than 1% as of September 30, 2022. Management believes that the collection rate for its accounts receivables will increase as service disconnections gradually return to normal operations.

Cash Flow from Investing Activities

During the nine months ended September 30, 2023, SJW Group used cash flows from investing activities of approximately \$241,700, compared to approximately \$181,500 for the same period in 2022. SJW Group used approximately: (1) \$195,900 of cash for company-funded utility capital expenditures, (2) \$24,200 for nonutility properties, real estate investments and other intangible asset, (3) \$13,600 for developer-funded utility capital expenditures, and (4) \$7,300 for business acquisitions during the nine months ended September 30, 2023.

Water Utility Services' estimated utility capital expenditures for 2023, exclusive of capital expenditures financed by customer contributions and advances, are anticipated to be approximately \$255,000. As of September 30, 2023, approximately \$195,900 or 77% of the \$255,000 has been invested.

Water Utility Services' capital expenditures are incurred in connection with normal upgrading and expansion of existing facilities and to comply with environmental regulations. Over the next five years, Water Utility Services expects to incur approximately \$1,630,000 in capital expenditures, which includes replacement of pipes and mains, maintaining water systems, and installing PFAS treatment. A significant portion of this amount is subject to future respective state regulatory utility commissions' approval. Capital expenditures have the effect of increasing utility plant rate base on which Water Utility Services earns a return. Water Utility Services actual capital expenditures may vary from their projections due to changes in the expected demand for services, weather patterns, actions by governmental agencies, and general economic conditions. Total additions to utility plant normally exceed company-financed additions as a result of new facilities construction funded with advances from developers and contributions in aid of construction.

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

Cash Flow from Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2023 increased by approximately \$38,000 from the same period in the prior year, primarily as a result of (1) an increase in net borrowings and repayments on long-term debt of \$139,700, and (2) an increase in net proceeds from our common stock equity offerings of \$72,200, offset by (3) a decrease in net borrowings and repayments on our lines of credit of \$167,300, (4) \$3,100 increase in dividends paid to stockholders, and (5) \$2,700 decrease in net cash receipts from advances and contributions in aid of construction.

Sources of Capital:

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

Short-term Financing Agreements

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

A summary of the line of credit agreements as of September 30, 2023 are as follows:

| | Maturity Date | Line Limit | Amounts Outstanding | Unused Portion |
|-----------------------------------|----------------------|-------------------|----------------------------|-----------------------|
| Syndicated credit agreement: | August 2, 2028 | | | |
| SJW Group | | \$ 50,000 | — | 50,000 |
| SJWC | | 140,000 | 42,000 | 98,000 |
| CTWS | | 90,000 | 40,000 | 50,000 |
| TWC | | 20,000 | — | 20,000 |
| Total syndicated credit agreement | | 300,000 | 82,000 | 218,000 |
| CTWS credit agreement | August 2, 2028 | 10,000 | 6,433 | 3,567 |
| CTWS credit agreement | May 25, 2025 | 40,000 | 40,000 | — |
| | | \$ 350,000 | 128,433 | 221,567 |

For the nine months ended September 30, 2023, cost of borrowing on the lines of credit averaged 6.16% compared to 2.79% in the same period in 2022.

All of SJW Group's and subsidiaries lines of credit contain customary representations, warranties and events of default, as well as certain restrictive covenants customary for facilities of this type, including restrictions on indebtedness, liens, acquisitions and investments, restricted payments, asset sales, and fundamental changes. All of the lines of credit also include certain customary financial covenants such as a funded debt to capitalization ratio and a minimum interest coverage ratio. As of September 30, 2023, SJW Group and its subsidiaries were in compliance with all covenants on their lines of credit.

Long-term Financing Agreements

On July 14, 2022, SJWC entered into a note purchase agreement with certain affiliates of New York Life Insurance, Metropolitan Life Insurance, Northwestern Mutual Life Insurance, and John Hancock Life Insurance (collectively the "Purchasers"), pursuant to which the company will sell an aggregate principal amount of \$70,000 of its 4.85% Senior Notes, Series P ("Series P Notes") to the Purchasers. The Series P Notes are unsecured obligations of SJWC and are due on February 1, 2053. Interest is payable semi-annually in arrears on February 1st and August 1st of each year. The note purchase agreement contains customary affirmative and negative covenants for as long as the Series P Notes are outstanding. The Series P Notes are also subject to customary events of default. The closing of the note purchase agreement occurred on January 25, 2023.

The debt and credit agreements of SJW Group and its subsidiaries contain various financial and other covenants. Non-compliance with these covenants could result in accelerated due dates and termination of the agreements. In addition, the credit agreements contain customary representations and warranties and are subject to customary events of default, which may result in the outstanding debt becoming immediately due and payable. As of September 30, 2023, SJW Group and its subsidiaries were in compliance with all covenants in their long-term debt agreements.

Equity Financing Arrangements

On March 1, 2023, SJW Group entered into Amendment No. 1 to the equity distribution agreement (the "Equity Distribution Agreement"), dated November 17, 2021, between SJW Group and J.P. Morgan Securities LLC, Janney Montgomery Scott LLC, RBC Capital Markets, LLC and Wells Fargo Securities, LLC (each a "Sales Agent" and, collectively, the "Sales Agents"), pursuant to which SJW Group increased the aggregate gross sales price of shares of SJW Group's common stock, \$0.001 par value per share, that may be sold under the Equity Distribution Agreement from \$100,000 to \$240,000. For the three and nine months ended September 30, 2023, SJW Group issued and sold a total of 169,421 and 1,029,924 shares of common stock, respectively, with a weighted average price of \$69.57 and \$74.57 per share, respectively, and received \$11,505 and \$75,284 in net proceeds, respectively, under the Equity Distribution Agreement. Since the inception of the Equity

Distribution Agreement, SJW Group has issued and sold 1,914,775 shares of common stock with a weighted average price of \$74.05 for a total net proceeds of \$138,716 and has \$98,209 remaining to issue from the sale of shares as of September 30, 2023 under the Equity Distribution Agreement.

Credit Rating

The condition of the capital and credit markets or the strength of financial institutions could impact SJW Group's ability to draw on its lines of credit, issue long-term debt, sell its equity or earn interest income. In addition, government policies, the state of the credit markets and other factors could result in increased interest rates, which would increase SJW Group's cost of capital. While our ability to obtain financing will continue to be a risk, we believe that based on our 2023 and 2022 activities, we will have access to the external funding sources necessary to implement our on-going capital investment programs in the future. SJW Group, CTWS and CWC were put on negative watch on September 19, 2023. Standard & Poor's noted the change in outlook is due to recent regulatory and legislative developments in Connecticut that are not consistent with Standard & Poor's view of the regulatory framework for investor owned utilities.

The following table are the current Standard & Poor's Rating Service assigned company ratings:

| Entity | Rating | Outlook |
|-----------|--------|----------|
| SJW Group | A- | Negative |
| SJWC | A | Stable |
| CTWS | A- | Negative |
| CWC | A- | Negative |

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. SJW Group's subsidiaries sponsor noncontributory pension and other post-retirement plans for its employees. Pension and other post-retirement costs and the funded status of the plans may be affected by a number of factors including the discount rate, mortality rates of plan participants, investment returns on plan assets, and pension reform legislation.

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

ITEM 4. CONTROLS AND PROCEDURES

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

There has been no change in internal control over financial reporting during the third fiscal quarter of 2023 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. In October 2023, The Connecticut Water Company, a subsidiary of SJW Group, was named as a defendant in a class action lawsuit alleging that the water provided by Connecticut Water contained contaminants. Connecticut Water intends to vigorously defend itself in this lawsuit. 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 annual report on Form 10-K for the year ended December 31, 2022 and our other public filings, which could materially affect our business, financial condition or future results. There has been no material changes from risk factors previously disclosed in "Risk Factors" in SJW Group's annual report on Form 10-K for the year ended December 31, 2022.

ITEM 5. OTHER INFORMATION

Quarterly Dividend

On October 25, 2023, the Board of Directors of SJW Group declared the regular quarterly dividend of \$0.38 per share of common stock. The dividend will be paid on December 1, 2023, to stockholders of record as of the close of business on November 6, 2023.

Information Web Sites

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

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|-------------------|--|
| 10.1 | Transition and Separation Agreement and Release, dated July 6, 2023, by Andrew R. Gere and San Jose Water Company, Incorporated by reference to Exhibit 10.1 to Form 8-K filed on July 7, 2023. |
| 10.2 | First Amendment to Credit Agreement, dated August 2, 2023, between SJW Group, San Jose Water Company, SJWTX, Inc., Connecticut Water Service, Inc., JPMorgan Chase Bank, N.A., as administrative agent and a lender, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 to Form 8-K filed on August 2, 2023. |
| 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: October 30, 2023

By: /s/ ANDREW F. WALTERS

**Andrew F. Walters
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 the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 30, 2023

/s/ ERIC W. THORNBURG

Eric W. Thornburg

Chairman, President and Chief Executive Officer

(Principal executive officer)

CERTIFICATIONS

I, Andrew F. Walters, certify that:

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

Date: October 30, 2023

/s/ ANDREW F. WALTERS

Andrew F. Walters

Chief Financial Officer and Treasurer

(Principal financial officer)

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

In connection with the Quarterly Report of SJW Group (the "Company") on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric W. Thornburg, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge on the date hereof:

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

/s/ ERIC W. THORNBURG

Eric W. Thornburg
Chairman, President and Chief Executive Officer
(Principal executive officer)
October 30, 2023

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

In connection with the Quarterly Report of SJW Group (the "Company") on Form 10-Q for the quarter ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew F. Walters, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge on the date hereof:

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

/s/ ANDREW F. WALTERS

Andrew F. Walters
Chief Financial Officer and Treasurer
(Principal financial officer)
October 30, 2023