



CTWS/SJW MERGER COMMITMENTS

As Approved in Docket 19-04-02

September 4, 2019

The following legally binding commitments are included in the Connecticut Public Utilities Regulatory Authority ("PURA") approval of the Application of Connecticut Water Service Inc., ("CTWS") and SJW Group ("SJW") for approval of a merger pursuant to Section 16-47 of the Connecticut General Statutes.

The commitments are in effect for Connecticut Water Company ("CWC"), Avon Water Company and Heritage Village Water Company (individually, a "Connecticut Utility," and collectively, the "Connecticut Utilities").

The comprehensive set of commitments detailed below provide immediate and long term customer benefits, protect jobs, preserve local control, support economic development, advance important environmental goals and other measures in the public interest in the State of Connecticut. Further, the commitments provide financial protections for the Connecticut Utilities and customers through governance and financial ring fencing measures.

I. Customer Rate Benefits and Protections

1. (a) Customer Short Term Benefit Payment - Recognizing the anticipated short term savings from the combination achievable after closing, the Applicants shall provide customer bill credits totaling approximately \$2.3 million for customers of Connecticut Water Company, The Avon Water Company, and The Heritage Village Water Company. The credits will be applied as a one-time credit to each customer of record following the close of the transaction as follows (a) 2% applied to customer bills, excluding any surcharges or credits, for all water and wastewater service accounts other than public fire accounts, and (b) 5% applied to public fire bills, excluding any surcharges or credits, for municipal public fire accounts. These bill credits, which represent 2.35% of total allowed revenues of the Connecticut Utilities, will not be recovered in future rates.

(b) Customer Long Term Benefit Credit - Recognizing the anticipated long term savings from the combination achievable after closing, the Applicants shall provide customer rate credits totaling \$300,000 per year for a period of ten years for a total of \$3 million in long term rate credits for customers of the Connecticut Utilities. The long term rate credit will be built into base rates by a reduction in the revenue requirements in the next respective rate cases to be filed by the Connecticut Utilities and continue for a period of ten years thereafter. The Applicants can offset merger related savings in the respective rate cases of the Connecticut Utilities by the amount of the long term rate credits.

2. **Base Rate Freeze** - The Applicants agree to a general rate case stayout provision for Connecticut Water Company, Heritage Village and Avon Water Company, with no new base rates to take effect for those customers before January 1, 2021. While there will be no change in base rates, the Connecticut Utilities may continue to adjust, as approved, applicable Connecticut Department of Public Health (“DPH”) fees, Water Infrastructure and Conservation Adjustment (“WICA”), Water Revenue Adjustment (“WRA”) or other PURA approved surcharges or credits.
3. **Track Merger Related Savings** - In each rate case subsequently filed by the Connecticut Utilities over the next ten years, the Applicants will track all Connecticut merger-related savings, and shall bear the burden of proof of demonstrating that those savings were the product of the merger. All such merger-related savings will prospectively be flowed through to Connecticut customers, net of any costs to achieve those savings. Applicants will be permitted to seek deferred recovery for all costs to achieve any merger-related savings, but such recovery shall only be granted if the merger related savings exceed the costs to be included in rates. Beginning April 2021, CTWS shall make an annual compliance filing detailing merger transition costs incurred and the resulting synergies, including the status of Information Technology upgrades.
4. **No Recovery of Acquisition Premium or Transaction Costs** - The Connecticut Utilities will not seek recovery in rates of: (1) any acquisition premium or “goodwill” associated with the transaction; or (2) any transaction costs incurred in connection with the merger. The categories of transaction costs incurred in connection with consummation of the merger that will not be recovered from utility customers are: (a) consultant, investment banker, legal, and regulatory support fees, (b) change in control or retention payments, and if applicable, any executive severance payments, (c) costs associated with the shareholder meetings and a proxy statement related to the merger approval by CTWS shareholders, and (d) costs associated with the imposition of conditions or approval of settlement terms in other state jurisdictions.
5. **Hold Harmless Cost of Capital for Ratemaking** - The Applicants commit that the transaction will have no adverse effect on the Connecticut Utilities’ cost of capital for ratemaking purposes, including the cost of debt and the cost of equity included in the rates of the customers of the Connecticut Utilities. If any element of any of the Connecticut Utilities’ actual overall cost of capital is adversely affected by the transaction, the Applicants will hold customers harmless for any such adverse effects, and will only seek a cost of capital that is no higher than that which would have prevailed in the absence of the transaction. Each Connecticut Utility will have the burden of proving that any increase in the cost of capital is not a result, direct or otherwise, of the transaction. If the Connecticut Utility is unable to carry the burden of proof, the Connecticut Utility will hold customers harmless for any additional costs.

6. **Cost Allocation Post Transaction** - The Applicants commit that any costs allocated to the Connecticut Utilities from its post-transaction affiliates will not increase any of the Connecticut Utilities' aggregate revenue requirement, as compared to the revenue requirement that would have existed in the absence of the transaction. The Applicants also commit that there will be no negative rate impact on the Connecticut Utilities from any Internal Revenue Code Section 338(h)(10) election made in connection with the transaction.

II. Capital Investments and Infrastructure Improvements

7. **Annual Capital Investments** - For the five years following the effective date of the completion of the transaction, the Applicants agree to establish and fund annual capital budgets in the service area communities of the Connecticut Utilities, with annual investment to be equal to or greater than the average investment level for the 3 years prior to the merger.
8. **Connecticut Utilities' Authority for Capital Budget** - Under a Delegation of Authority ("DOA") from the SJW Group ("SJW") Board, as described in item No. 52, each of the Connecticut Utilities' Board shall have the full authority to develop, approve and implement their annual capital budgets. Within 60 days of Board approval, the Applicants shall submit to the Authority the 2020 capital budget for the Connecticut Utilities with a detailed list of projects, including WICA projects.
9. **Infrastructure Replacement Investments** - The Connecticut Utilities shall invest in eligible infrastructure replacement, as authorized under WICA, with a sustainable replacement cycle of at least 1% of pipe per year.

III. Water Quality and Service

10. **Customer Satisfaction** - For the first five years following the effective date of the merger, the Connecticut Utilities shall continue to have an independent party conduct annual customer satisfaction surveys and shall establish a goal of achieving a Customer Satisfaction Index (CSI) level that is greater than or equal to the CSI level achieved in the prior three-year rolling average (92.9% as of 2019). The results of such surveys shall be reported to the Authority within 60 days of receipt.
11. **Customer Lead Service Line Replacement Pilot** - Within 90 days of completion of the transaction, Connecticut Water Company shall submit a pilot plan for a customer side lead service line replacement program for its customers for approval by the Authority that would (1) provide details of a pilot program for 30 customer accounts, and (2) based on the results from such a pilot program propose a program for the Connecticut Water Company to address the needs identified in its system, including proposed rate recovery for review and consideration by the Authority in the company's next general rate case. The Connecticut Utilities will not seek to recover the costs of the pilot program in customer rates.

12. **Support in Emergency Response** - Within 120 days of the completion of the transaction, the Connecticut Utilities will submit updated emergency contingency plans to the Authority which reflects the ability to partner with SJW for engineering support, analysis, coordination and communications during major weather events, power outages, or other emergency events to deliver timely, cost effective emergency responses and minimize hours of interrupted service for customers of the Connecticut Utilities.

IV. Connecticut Jobs and Employment

13. **Maintain Connecticut Employee Levels** - The Applicants commit that for three years following the closing of the transaction, staffing levels for the combined Connecticut Utilities shall be at least equal to 221 employees which is the total number of employees at year end 2018 for those companies. The Applicants shall track and report to PURA the employee levels in Connecticut annually during this period including identification of the individual or individuals responsible for water resource and source protection programs and compliance with applicable water resource statutes, regulations and permit conditions indicated in Commitment 23. Included in these compliance reports will be a listing of employees referenced by an employee number by position that have been transferred to different positions, promoted, are new hires, or have left the companies' employment.
14. **No Layoffs** - The Applicants commit there shall be no layoffs as a result of the merger and no involuntary terminations in Connecticut, except for cause for three years after closing of the transaction.
15. **Job Creation Through WICA Spend** - The Applicants shall increase the annual WICA spend in the years 2019 through 2021 such that the WICA spend for Connecticut Water Company and Avon Water Company for those three years will be at least \$6.5 million more than the average annual WICA spend of \$18.3 million for Connecticut Water Company and Avon Water Company for the period from 2016 – 2018. This capital investment will support an additional 67 jobs in Connecticut in those three years (as compared to the prior three year average) based on Bureau of Economic Analysis (BEA) data that \$1 million in water supply spending equals 10.4 jobs in all sectors (\$6.5 m x 10.4 jobs).
16. **Supporting Cybersecurity** - The Applicants recognize the importance of the commitment to cybersecurity that has been made at CTWS under PURA's leadership and commit to continuing and expanding on that priority by adding 2 additional staff members (including full time contractors) in Connecticut by year-end 2020 to support that function.
17. **Workforce Development Positions** - The Connecticut Utilities shall maintain at least 2 positions for the three years following the closing of the transaction for interns and/or operators in training positions to support workforce development in Connecticut.

18. **Career Education** - The Applicants shall partner with local community colleges to support career events, educational opportunities and/or certification programs for workforce development in the water industry.
19. **Enhanced Safety Training** - The Applicants shall coordinate with SJW safety personnel to enhance training and safety programs for the benefit of Connecticut employees and shall provide at least 20 new safety training programs for Connecticut employees through the E360 learning system in the 12 months following closing, and increase from the current 422 to at least 500 safety training programs available in the online library over three years.

V. **Water Conservation and Water Resource Planning**

20. **Water Resource Management** - The Connecticut Utilities shall continue to maintain responsible water resource management programs and shall propose additional best practice conservation programs in the next general rate case.
21. **Funding Water Conservation Initiatives** - The Applicants shall provide a grant of \$50,000 within 30 days following the closing of the transaction to the Alliance for Water Efficiency to provide service to the Water Planning Council to support water conservation programs identified in the State Water Plan. The Connecticut Utilities will not seek to recover the costs of such grant donations in customer rates.
22. **Reducing Nonrevenue Water** - In consultation with the SJW team, building on their experience in California, the Connecticut Utilities shall implement tools and practices with a goal of reducing the nonrevenue water in the Connecticut Water Company water systems to not more than 14% overall nonrevenue water in each system by the end of year 2020.

The Connecticut Utilities shall work with SJW's AWWA Certified Water Auditor to develop a plan for a comprehensive water audit program for the Connecticut Utilities based on AWWA's M36 Water Audits and Loss Control Programs recommended policies with a goal to maintain average annual nonrevenue water (NRW) levels of 14% or less in each Connecticut Water system that serves 1,000 or more customers. The plan would identify real and apparent losses and inform annual targets, priorities and methods to achieve those based on systems specific needs and environmental considerations.

The program to reduce system losses would be accomplished through a combination, as appropriate and cost effective, of (a) leak detection measures, (b) deployment of tools, technology and best practices to reduce water loss, (c) meter testing and right sizing and advanced metering technology, (d) prioritization of WICA projects, and (e) other opportunities identified by the team of the combined organization.

The first three systems to be addressed would be the following identified as priority by the Connecticut Department of Energy and Environmental Protection (“DEEP”):

- a. Gallup
- b. Naugatuck
- c. Guilford

If the company has NRW levels in excess of its overall goal of 14% NRW at the time of any general rate case, the costs for chemicals and powers in excess of 14% NRW in any system which exceeded that NRW metric would not be eligible for recovery in rates.

23. **Participation in State Water Planning** - The Applicants agree to designate an individual employed by and working from the Connecticut Utilities whose principal duty office is in Connecticut with applicable experience to be available to participate in and support state water resource planning activities, including the efforts of the Water Planning Council related to the State Water Plan and to be responsible for water resource and source protection program and compliance with applicable water resource and source protection statutes, regulations and permit conditions.
24. **Technical Assistance on Conservation and Drought Response** - Based on their experience in California, members of the SJW team shall provide advice and technical assistance regarding water conservation and drought response planning to Connecticut’s Water Planning Council and the Connecticut Utilities.
25. **Limit Use of Connecticut Water Supplies** - The Applicants agree that they will not use Connecticut water supplies to serve SJW systems or customers outside the State of Connecticut without PURA approval.

VI. Charitable Contributions and Community Support

26. **Increase Charitable Giving** - The Connecticut Utilities shall enhance charitable giving and support for at least 5 years following the closing of the merger as follows (i) increase the level of corporate donations to an annual amount of \$120,000 which is double the prior 3-year average of \$60,000, (ii) establish an employee charitable giving committee, and (iii) include a company match for eligible employee charitable donations within the Connecticut Utilities charitable contributions. The Connecticut Utilities will not seek to recover the costs of such charitable donations in customer rates.
27. **Enhance Customer Assistance Program** - Connecticut Water Company shall enhance its H₂O customer assistance program to offer greater level of assistance to income eligible customers (with 50% match on payments for eligible customers in deferred payment arrangements) and expand the criteria for the one-time hardship assistance program to consider conditions or events other than strictly financial hardships such as medical situations, military deployment, etc.

28. **Support Low Income Assistance** - Within 60 days of closing, the Applicants shall make a total one-time donation of \$50,000 to be distributed to soup kitchens, food pantries or similar organizations in the service communities of the Connecticut Utilities' to address the needs of low income customers. The Connecticut Utilities will not seek to recover the costs of such charitable donations in customer rates.
29. **Utility Supplier Diversity Program** - Based on the experience at SJW, the Connecticut Utilities shall provide a plan to the Authority within 120 days of the completion of the transaction that will establish a Utility Supplier Diversity Program at the Connecticut Utilities to promote the inclusion of women-owned, minority-owned, LGBTQ-owned and veteran-owned business enterprises into the utility supply chain. The diversity plan shall include specific and measurable targets.

VII. Supporting the State Energy Policy

30. **Class I Renewable Energy** - The Applicants agree that for the three years following the close of the transaction the Applicants will increase the amount of Class I renewables purchased for the Connecticut Utilities so that the percentage of Class I renewables purchased shall meet the established 2025 statutory standard for 30 percent Class I renewables five years in advance of such requirement, achieving that level starting in 2020.
31. **Energy Efficiency Measures** - The Applicants agree to have energy efficiency audits conducted for at least 10 of the Connecticut facilities in 2020. The Connecticut Utilities shall propose a plan within one year following the close of the transaction for recommended energy efficiency measures, including any requested rate relief, that would reduce the kWh per million gallons of water produced or for implementation of renewable energy projects, for review and consideration by the Authority.

VIII. Protection of Open Space and Water Company Lands

32. **Environmental Safeguards for Water Company Lands** - The Applicants agree that in the interest of providing additional environmental safeguards regarding disposition of water company lands and recognizing that some water company lands owned by the Connecticut Utilities provide opportunities for passive recreation, the Applicants shall comply with the provisions of the Memorandum of Agreement with Connecticut Fund for the Environment dated October 24, 2018.
33. **Process for Notice and Prioritization** - For a period of at least 20 years following the date of the closing, the Connecticut Utilities shall adhere to any applicable laws in effect at that time and continue to follow the process for notice and prioritization as established in sections 16-50c and 16-50d of the Connecticut General Statutes ("General Statutes") in effect at the time of the Memorandum of Agreement before the Companies initiate the sale, lease or disposition of water company lands, even if Connecticut statutes are amended and such notice is no longer required.

34. **Recreation Programs** - The Connecticut Utilities shall within two years of closing conduct an evaluation and identify opportunities to establish additional passive recreation programs on their company-owned lands while providing for the protection of the public water supply sources, in accordance with the General Statutes and applicable regulations and policies of the Connecticut Department of Public Health, Department of Energy and Environmental Protection or PURA.
35. **Municipalities and Land Conservation Organizations** - The Connecticut Utilities shall not initiate a sale, lease or disposition of certain Connecticut properties identified and designated in the Memorandum of Agreement without following the process specified in that agreement to allow designated municipalities or non-profit land conservation organizations the opportunity to identify their interest in and the potential to acquire such properties in accordance with the Memorandum of Agreement.

IX. Regulatory Oversight and Jurisdiction

36. **PURA Oversight and Authority** - The Connecticut Utilities will continue to operate within the State of Connecticut as public service companies and water companies subject to the jurisdiction of the Authority pursuant to the State of Connecticut's applicable statutes regulating such companies, and without any reduction in the Authority's existing oversight or authority over the Connecticut Utilities.
37. **Connecticut Regulatory Jurisdiction** - The Connecticut Utilities will continue to be subject to the jurisdiction of DEEP, DPH and the Authority and the Connecticut management team shall be responsible to maintain compliance with applicable laws and regulations of the State of Connecticut governing the utilities' operations and service.

X. Local Presence and Management

38. **Connecticut Operating Centers and Personnel** - The Applicants agree to maintain operating centers in the service area of the Connecticut Utilities to ensure timely service and response by field personnel.
39. **Headquarters and Management in Connecticut** - The Applicants agree to maintain a CTWS New England headquarters and management team in Connecticut with responsibility and accountability for operations, water quality, customer service and rates of the Connecticut Utilities.
40. **Public Official Outreach** - The Connecticut Utilities commit to provide outreach on a regular basis to the chief elected officials in its service communities through in-person meetings and other regular communications, and continue participation and support of community organizations and events in the service towns of the Connecticut Utilities.

41. **Customer Advisory Council** - The Connecticut Utilities shall have a Customer Advisory Council with representatives from the service communities of all of the Connecticut Utilities, consistent with the provisions of Section 16-262a of the General Statutes, for at least 5 years, whether or not it is required due to the membership of the boards of the Connecticut Utilities. Members shall be appointed by the chief elected official of each municipality, who are residents of the area served by the company and are not officers or employees of the company, to consult and advise on matters of local interest. The company shall report to the Authority, within thirty days after appointment, the names and towns of residence of such appointees.

XI. Timing and Compliance with Commitments and Conditions

42. **Binding Commitments** - All of the commitments contained in this document are considered binding on the Applicants and shall be implemented unless otherwise modified by the Authority. CTWS will develop tracking mechanisms to ensure compliance with all of the commitments contained in this document. The Connecticut Utilities shall report annually, by issuing an Officer's Certificate to the Authority, on the Applicants' compliance with the terms and conditions of these commitments and the PURA Order approving the transaction.
43. **Implementation** - The Applicants agree to implement the commitments within 180 days of the closing, unless otherwise specified herein or in the order of the Authority, and will not modify or terminate any commitments without first obtaining approval to do so from the Authority. Unless a time limit is specifically stated, each commitment herein shall remain in effect until it is expressly rescinded or altered by an Authority order.
44. **Compliance** - If the Applicants are in noncompliance with any of these commitments, the Applicants must file a plan for review and approval with the Authority within 60 days of such noncompliance explaining the actions that are planned to address and rectify the noncompliance within a specified period of time approved by PURA. In the event that PURA finds material non-compliance continues after such plan has been implemented, PURA may require such measures deemed appropriate to ensure compliance using any of its legal powers.

Without limiting the Authority's powers under applicable law, PURA shall have the right to invoke Conn. Gen. Stat. §16-47(h) and apply to Superior Court seeking a divestiture of the Connecticut Utilities on terms adequate to protect the interests of utility investors (including SJW investors) and consumers and the public in the event PURA finds, following investigation and hearing, that there has been a material non-compliance of the commitments and that: (a) one or more of the divestiture conditions described below has occurred, and (b) that as a consequence one or more of the Connecticut Utilities has failed to meet its obligations as a public service company, and (c) that divestiture is necessary to allow such Connecticut Utility(ies) to meet its obligations and to protect the interests of its customers in a financially healthy utility and in the continued receipt of reasonably adequate utility service at just and reasonable rates. Any divestiture order made pursuant to this commitment shall be applicable to the Connecticut Utilities only to the extent consistent with the application of the criteria in the preceding clauses (a) — (c) . The

divestiture conditions covered by this commitment are: (i) a bankruptcy filing by SJW or any of its subsidiaries constituting 10% or more of SJWs consolidated assets at the end of its most recent fiscal quarter, or 10% or more of SJWs consolidated net income for the twelve months ended at the close of its most recent fiscal quarter; (ii) the rating for SJWs senior unsecured long-term public debt securities, without third-party credit enhancement, are downgraded to a rating that indicates “ substantial risks” (i.e., below B- by S&P) by a major credit rating agency, and, such condition continues for more than six months; or (iii) SJW and/or its subsidiaries has committed a pattern of material violations of lawful Commission orders or regulations, or applicable provisions of Title 16 of the Connecticut General Statutes and, despite notice and opportunity to cure such violations, have continued to commit the violations.

BOARD, GOVERNANCE AND FINANCIAL PROTECTIONS

XII. SJW Board

45. **CTWS Board Members on SJW Board** - SJW Board of Directors shall include a majority of independent Board members (in accordance with NYSE rules), and will include, following closing, three directors who as of immediately prior to the Effective Time (as defined in the Merger Agreement) are members of the board of directors of CTWS who will be appointed to the SJW Board.
46. **Board Meeting in Connecticut** - The Applicants agree to conduct at least one meeting a year of SJW Board of Directors in the service territory of the New England subsidiaries with a meeting to be held in the state of Connecticut at least once every 2 years.

XIII. CTWS and Subsidiary Boards

47. **Subsidiary Boards** - CTWS, Connecticut Water Company and Avon Water Company shall each have a board of directors consisting of at least 5 members as long as they are separate entities. A majority of each board will (i) reside in the New England region and (ii) be independent under NYSE rules for independent directors. The initial board of each company will include at least two directors who as of immediately prior to the Effective Time (as defined in the Merger Agreement) are members of the board of directors of CTWS. The Applicants shall notify the Authority 30 days prior to the election of a director to the CTWS, Connecticut Water Company and Avon Water Company Boards.
48. **Heritage Village Board** - The Heritage Village board shall be defined consistent with a 2016 settlement agreement entered into at the time of the acquisition of Heritage Village that recognized certain requirements of the enabling legislation that authorized the establishment of the Heritage Village.

49. **Board Responsibility** - Each of the boards will have the exclusive responsibility to (i) select its officers deemed best able to serve the local interests, (ii) support the continued achievement of target levels in the annual customer satisfaction survey, (iii) approve any dividends and (iv) review and approve their annual capital and operating budgets.

Management

50. **Leadership Meetings** - The president of the Connecticut Utilities will meet with the SJW CEO at least monthly and the Connecticut service territories will be among the locations of the SJW periodic leadership meetings.
51. **Managerial Responsibilities for Connecticut Utilities** - There will be no changes to the day-to-day managerial and operational responsibilities of the Connecticut Utilities' management as a result of the transaction. CTWS management will continue to establish priorities and respond to local conditions as has been the case before the transaction occurred.
52. **Corporate Governance Principles and a Delegation of Authority** - The authority and responsibility delegated to local management will be clearly delineated in formal written documents including a Delegation of Authority with corporate governance principals ("DOA"). The DOA will demarcate, among other things, defined categories of decisions that can be authorized exclusively by the management of Connecticut Utilities with the approval of the Connecticut Utilities' Boards of Directors. – The categories of decisions authorized exclusively by the Connecticut Utilities will not be subject to dollar value limitations.

XIV. Financial Protections and Ring Fencing

53. **Notice of Ratings Event** - Within three (3) business days of occurrence, SJW will provide the Authority with notice of any determination of a violation of a financial covenant in a SJW credit rating instrument. Such notice shall be filed subject to a protective order.
54. **SJW Investments Exceeding Ten Percent**
 - (a) Notice to PURA - SJW shall notify PURA within thirty (30) days after the announcement of any proposed investment in a company, other than SJW and its subsidiaries and affiliates, made by SJW in any non-regulated business entity or in any regulated utility, provided that such entity or the cumulative amount of such investments in a calendar year represents more than ten-percent (10%) of SJW market capitalization as measured on the date on which the transaction is announced.

(b) PURA Review - For any single investment that exceeds ten-percent of SJW market capitalization as provided for herein, the notice shall be accompanied by a compliance report in the same form as required by Commitment No. 42 but dated as of the date of the transaction announcement. If such report indicates non-compliance with the Minimum Equity Ratio described in Commitment No. 61, or if one or more of the rated Connecticut Utilities has a credit rating of BBB+ or lower, SJW shall not close on the transaction without a PURA determination that such transaction will not have a material adverse effect on the financial condition of the Connecticut Utilities.

55. **Separate Books and Records; Access to Books and Records** - Each of the Connecticut Utilities shall maintain separate books, records, bank accounts and financial statements reflecting its separate assets and liabilities. Upon request, the Applicants agree to provide the Authority and its Staff and the Office of Consumer Counsel (“OCC”) access in the State of Connecticut to the original books and records of the Connecticut Utilities as maintained in the ordinary course of business within 10 business days after such request. The Applicants agree to provide the Authority and its Staff access, upon 30 days advance notice, and subject to resolution of confidentiality and privilege issues, to the books and records of SJW and its subsidiaries that may have a direct or indirect controlling interest in the Connecticut Utilities, and other SJW affiliates where such books and records are relevant to the Authority’s exercise of authority, and necessary to audit and monitor any transactions that have occurred between any of the Connecticut Utilities and such subsidiaries or affiliates.
56. **No Cross Defaults** - None of CTWS or the Connecticut Utilities will include in any of their respective debt or credit agreements (i) a condition that would cause a default as a result of the default of the debt or credit agreements of any member of the SJW Affiliate Group; (ii) cross-default provisions between CTWS and Connecticut Utilities securities, on the one hand, and the securities of any member of the SJW Affiliate Group, on the other; or (iii) any financial covenants or rating agency triggers related to any member of the SJW Affiliate Group. In addition, none of CTWS or the Connecticut Utilities will assume liability for or issue any guarantees of the debt of any member of the SJW Affiliate Group. As used in this commitment, “SJW Affiliate Group” means SJW and its subsidiaries other than CTWS and CTWS’s regulated utility subsidiaries.
57. **Separate Debt** - With respect to acquisitions by any affiliated companies, none of the Connecticut Utilities shall incur or assume any debt or financial obligation, including the provision of guarantees, pledges or collateral support other than for Connecticut Utilities’ acquisitions without the approval of PURA. The Connecticut Utilities will not incur, issue or assume any debt or financial obligation, including the provision of guarantees or collateral support, related to this merger or any future acquisition except as set forth above.
58. **Money Pools** - The Connecticut Utilities will not participate in any money pools unless the other participants in such money pools are other regulated utility affiliates in the United States, and such participation is authorized by the Authority.

59. **Registration with Credit Rating Agencies** - Each of SJW and Connecticut Water Company shall register with at least one of the three nationally and internationally recognized bond rating agencies (Standard & Poor's, Moody's Investor Service, and Fitch Ratings), and intend to obtain a post-merger credit rating of at least A- or its rating equivalent. SJW and Connecticut Water Company will use reasonable efforts to maintain its post-merger credit rating. In the event that any of the other Connecticut Utilities is required by a debt purchaser to obtain a credit rating from any of such rating agencies in connection with a future borrowing, such utility will seek to obtain a credit rating consistent with the SJW and Connecticut Water Company rating.
60. **Rating Agency Presentations** - Copies of all presentations made to credit rating agencies by SJW or any of its affiliates that relate to CTWS or the Connecticut Utilities must be provided, within ten business days of the presentation, to the Authority's Staff and OCC on a continuing basis, subject to appropriate confidentiality protections including a protective order. SJW will report within ten days to the Authority if SJW or any of the Connecticut Utilities is placed on negative outlook or is downgraded below current ratings (or, in the case of a newly rated Connecticut Utility, below the initial rating by any of the major credit rating agencies).
61. **Minimum Equity Ratio** - At all times following the closing of the transaction, each of the Connecticut Utilities' actual common equity ratios will be maintained at no lower than the equity percentage used to set rates in the last rate proceeding for that utility less 500 basis points (5 percentage points) (the "Minimum Equity Ratio" for each utility). The actual equity ratio of each Connecticut Utility will be calculated using a 13-month trailing average for such utility.

If a Connecticut Utility's actual common equity ratio falls below such utility's Minimum Equity Ratio, such Connecticut Utility shall, within 30 days of the occurrence of the event, file a plan with the Authority specifying how such utility intends to address and rectify such event.

62. **Credit Rating, Minimum Equity Ratio and Dividend Restrictions** – (a) If at any time following the closing of the transaction, either (i) the credit rating of a Connecticut Utility falls below investment grade, as determined by any of the major rating agencies (Standard & Poor's, Moody's and Fitch) rating such company or (ii) a Connecticut Utility's credit rating falls to the lowest investment grade rating of any of the major rating agencies rating such utility, and such rating agency or agencies has placed such utility on negative watch or issued a review downgrade notice, then such Connecticut Utility shall (x) within 30 days of the occurrence of the event, file a plan with the Authority specifying how such utility intends to address and rectify such event and (y) within 60 days of the occurrence of the event, implement such plan.

If such plan does not result in an investment grade credit rating without a negative outlook by the time of the rating agency's next action with respect to such utility, then, for the remaining duration of the event, (x) such utility will be prohibited from paying any dividends to CTWS and (y) CTWS may only pay dividends to the

special purpose entity (“SPE”) discussed in Section XVI below based on funds received from its other subsidiaries. Within 30 days of such action by the rating agency, such utility will file a new plan with the Authority specifying how such utility intends to address and rectify such event. For any such event, the duration of the event shall be deemed concluded once the utility’s credit rating has been reversed through the re-establishment of an investment grade rating without a negative outlook.

(b) No dividends may be paid by CTWS to the SPE if payment would result in CTWS being unable to maintain its weighted average consolidated equity ratio at or above the weighted average Minimum Equity Ratio, with such weighted average calculated based on the respective total assets of each Connecticut Utility, unless pursuant to a petition to the Authority by CTWS, the Authority or its designee specifically approves the payment of dividends.

(c) If at any time following the closing of the transaction, CTWS’s consolidated equity ratio has fallen below the weighted average Minimum Equity Ratio of the Connecticut Utilities, with such weighted average calculated based on the respective total assets of each Connecticut Utility, then CTWS will also be prohibited from paying any dividends to the SPE for the duration of the event, unless pursuant to a petition to the Authority by CTWS, the Authority or its designee specifically approves the payment of dividends. If such an event occurs, CTWS shall, within 30 days of the occurrence of the event, file a plan with the Authority specifying how CTWS intends to address and rectify such event. For any such event, the duration of the event shall be deemed concluded once the equity ratio trigger has been reversed through an increase in CTWS’s consolidated equity ratio, or the Authority or its designee specifically approves the payment of dividends.

(d) CTWS shall notify the Authority in writing within 10 business days if the Board of Directors for CTWS authorizes a dividend that results in a payout ratio exceeding 60%. The notice shall explain the reason for diverging from established dividend practice and policy and demonstrate that the authorized dividend is not subject to the credit rating or minimum equity ratio restrictions in Commitment Nos. 61 and 62.

63. Compliance Reports

(a) Annual Compliance Report - CTWS and the Connecticut Utilities will create internal tracking mechanisms to ensure compliance with the ring fencing requirements and file with the Authority an annual compliance report with respect to such ring fencing requirements.

(b) Compliance Audit –Three and six years following closing, PURA shall conduct an audit of the Applicants’ compliance with the ring-fencing and local control commitments (Nos. 45-63). The OCC, DEEP or the Attorney General may request that PURA conduct a subsequent audit of the Applicants’ compliance with the ring-fencing and local control commitments provided for herein. The audits at three and six years shall be at SJW’s expense and not recoverable through the rates of the Connecticut Utilities. Additional audits may be eligible for costs recovery, unless such audits identify a non-compliance.

XV. Corporate Structure and Use of an SPE

64. **SPE** - Following the consummation of the proposed transaction, the Applicants will create a tax neutral special purpose entity (“SPE”) that is a direct, wholly-owned subsidiary of SJW as follows: (i) The SPE will have five directors appointed by SJW. One of the five SPE directors will be an independent director who does not serve on the SJW board, and meets the other independence criteria set forth in the SPE governing documents (the “special independent director”). The other SPE directors may be directors, officers or employees of SJW or its affiliates, including CTWS and its subsidiaries; (ii) The SPE will directly own 100% of the ownership interests in CTWS and function as the intermediate holding company separating CTWS and its subsidiaries, including the CTWS Utilities, from SJW and the other SJW Affiliates; (iii) The SPE will operate so as to provide protection to CTWS and the Connecticut Utilities from any bankruptcy proceedings of SJW or the other SJW Affiliates; (iv) The SPE shall ensure that title to all real and personal property acquired by it is acquired, held and conveyed in its name; and (v) The SPE will have no other operational functions, and none of the cost of establishing, operating or modifying the SPE will be recovered from the Connecticut Utilities’ customers.
65. **Bankruptcy Protection** - A voluntary petition for bankruptcy by the SPE will require the affirmative vote of the SPE’s board of directors, including the vote of the SPE’s special independent director.
66. **Organizational Documents of the SPE** - Any amendment to the organizational documents of the SPE that would remove or alter the voting or other ring-fencing requirements set forth in this document will require the affirmative vote of the SPE’s board of directors, including the vote of the SPE’s special independent director, and the approval of the Authority.
67. **Separate Corporate Existence** - At all times, the SPE will maintain its separate existence as a separate corporate subsidiary of SJW. CTWS will maintain its separate existence as a separate corporate subsidiary of the SPE and each of the Connecticut Utilities will maintain their separate existences as separate corporate subsidiaries of CTWS with their separate utility franchises, obligations and privileges unless otherwise approved by the Authority. At all times, each of CTWS and the Connecticut Utilities will hold itself out as an entity separate from its affiliates, will conduct business in its own name through its duly authorized directors and officers, comply with all organizational formalities to maintain its separate existence and shall use commercially reasonable efforts to correct any known misunderstanding regarding its separate identity. CTWS and the Connecticut Utilities will make any necessary changes to their charters and bylaws to implement these provisions.

68. **Arm's Length Relationships** - CTWS, the Connecticut Utilities and the SPE will maintain arm's-length relationships with each of their affiliates and observe all necessary, appropriate and customary formalities in their dealings with their affiliates. The Applicants commit to an arm's-length business relationship between: (a) SJW and any other SJW business unit and (b) CTWS and the Connecticut Utilities, which will be governed by the Authority's affiliate transaction rules and regulations. For the avoidance of doubt, "SJW business unit" means SJW and each subsidiary of SJW, other than CTWS and the Connecticut Utilities.
69. **No Comingling of Funds** - The SPE will not commingle its funds or other assets with the funds or other assets of any other entity and shall not maintain any funds or other assets in such a manner that it will be costly or difficult to segregate, ascertain or identify its individual funds or other assets from those of its owners or any other person.
70. **Non-Consolidation Opinion** - SJW will obtain and provide to the Authority a legal opinion in customary form and substance, to the effect that, as a result of the ring-fencing measures it has implemented for CTWS and its subsidiaries, a bankruptcy court would not consolidate the assets and liabilities of the SPE with those of SJW, in the event of an SJW bankruptcy, or the assets and liabilities of CTWS or its subsidiaries with those of SJW, in the event of a bankruptcy of SJW. In the event that such opinion cannot be obtained, SJW will promptly implement such measures as are required to obtain such opinion.
71. **Internal Corporate Reorganization** - SJW shall not engage in an internal corporate reorganization relating to SJW, the Connecticut Utilities or the SPE for which the Authority's approval is not required without 90 days prior written notification to the Authority. Such notification shall include: (a) an opinion of reputable bankruptcy counsel that the reorganization does not impact the effectiveness of CTWS's existing ring-fencing; or (b) a letter from reputable bankruptcy counsel describing what changes to the ring-fencing would be required to ensure CTWS is at least as effectively ring-fenced following the reorganization and a letter from SJW committing to obtain a new non-consolidation opinion before the reorganization and to take any further steps necessary to obtain such an opinion. None of SJW or its affiliates will object if the Authority elects to open an investigation into the matter if the Authority deems it appropriate. Notwithstanding the above language in this Paragraph, the Applicants shall not alter the ring-fencing plan described in these ring-fencing requirements without first obtaining written approval from the Authority.
72. **SPE and Non-Consolidation Opinion Costs** - None of the cost of establishing, operating, or modifying the SPE will be borne by CTWS or the Connecticut Utilities or the customers of the Connecticut Utilities. The cost of obtaining the opinion of legal counsel referred to in Item No. 70 (or any future opinion) will not be borne by CTWS or the customers of the Connecticut Utilities.

SUPPLEMENTAL COMMITMENTS

73. **Ombudsman.** To ensure compliance with the spirit and the letter of Commitments No. 45-52 concerning local control of the Connecticut Utilities, the Applicants shall select a third-party service provider to field reports from any employee of the Connecticut Utilities of any direct or indirect influence by SJW or San Jose Water Company that is contrary to those commitments. Any such reports shall be forwarded to the Audit Committee as an independent body recognized by the SEC with oversight responsibilities of the SJW Group Board of Directors, without identifying the reporting employee. All members of the Audit Committee shall be independent directors as defined in the listing standards of the New York Stock Exchange (or other principal market on which the securities of the Corporation are traded) and SEC Rules, and free of any material relationship with the Corporation that would interfere with the exercise of his or her independent judgment. The Audit Committee shall notify DEEP, OCC and the Authority within 45 days of any such verified reports with a plan to address any such issues. The costs for such third-party service provider shall be at SJW's expense and not recoverable through the rates of the Connecticut Utilities.
74. **Sound View System.** On or before December 31, 2020, CWC shall complete the planned improvements to its Sound View system shown on Exhibit OCC-2, including the main installation on Portland Avenue extension. Any lost savings resulting from Commitment No. 74 may not be recoverable under WICA if CWC's actions are found to be imprudent.
75. **Most Favored Nation Clause.** SJW shall file with the Authority a copy of the final Order and/or Settlement Stipulation from Maine and California (if applicable), following approval of the merger in that state, with an analysis indicating the total dollar amount of the customer benefits thereby awarded in Maine and California (if applicable) as compared to Connecticut (calculated in each case on a per-customer basis). A. If, on a per customer basis, the benefits thereby provided to Maine or California (if applicable) are materially more beneficial in the aggregate than the terms of this Order with respect to financial benefits, credits, or payments to customers, including the amount of the customer benefits rate credits specified in Commitment 1, then SJW will increase the financial benefits, credits, or payments to the Connecticut Utilities customers, to an equivalent amount calculated on a per customer basis. In no event will the operation of this methodology cause the customer benefits described in Commitment 1 to be reduced. In the event that financial benefits, credits, or payments are to be increased pursuant to this condition, PURA shall retain the authority to allocate any such additional financial benefits, credits, or payments in any manner that is consistent with the public interest.

76. **Source Impact Mitigation.** (a) CWC shall undertake actions as noted below for the following systems:
- a. Mt Hope River – Ashford, Ashford Park System
 - b. Chidsey Brook – Avon, Avon System
 - c. Branch Brook – Thomaston, (Reynolds Bridge Wells) Thomaston System
 - d. Poland River – Plymouth, (Terryville Wells), Terryville System
 - e. Menunketesuck River– Kelseytown dam, Guilford System
 - f. Hockanum River - Shenipsit Reservoir, Northern Western System

The company shall conduct a study for the four groundwater supplies listed as (a) to (d) above to assess the Connecticut Utilities' public water supply operations' contribution (if any) to causes of hydromodification impacts that have been documented by DEEP in the vicinity of these supplies. The Connecticut Utilities shall develop a schedule to implement feasible and prudent alternatives to mitigate any identified operational impact. Possible mitigation measures would include, but not be limited to supply-side and demand-side conservation, and the use of alternative and/or conjunctive use of supplies. Prior to conducting each study, the company shall submit a scope of study to DEEP, OCC and PURA. The aggregate cost of the studies up to \$500,000 shall be at SJW's expense and not recoverable through rates of the Connecticut Utilities.

One groundwater system per calendar year shall be studied beginning in 2020. Each study shall be submitted to DEEP, PURA and OCC before December 31 and shall identify potential impact of mitigation measures to the system's ability to provide a pure and adequate water supply as well as the anticipated environmental benefits, quantify the cost of implementation alternatives and make a recommendation for future action. The Connecticut Utilities shall consider any comments from DEEP, PURA or OCC received within 90 days of submission and shall proceed to implement any and all mitigation measures deemed cost-effective, provided such measures would not impair safe and reliable water service to CWC customers.

(c) The company will initiate releases required by the Stream Flow Standards and Regulations RCSA 26-141b-1 to 26-141b-8 for the (e) Kelseytown Reservoir and (f) Shenipsit Reservoir by September 1, 2021. In addition, the company waives its right to its regulatory option to use the Margin of Safety (MOS) off-ramp (regulatory cite) for the releases at the Kelseytown dam for the Guilford system, unless such MOS limitation is caused by loss of available supply.

(d) The company has identified 37 registered diversions listed on the attached Exhibit A.1 as obsolete, no longer used and useful, or otherwise not planned to be utilized by the company now or in the future. Those 37 diversions represent approximately 16.89 million gallons per day of authorized withdrawals. The company agrees to work with attorneys at DEEP to develop and file legal paperwork to formally relinquish any and all registered diversion rights to those 37 diversions listed on the attached Exhibit A.1. The company agrees to work with DEEP to develop and submit paperwork to relinquish those registered diversions shown on Exhibit A.1 within 180 days of closing.

77. **Two-Day Per Week Irrigation.** CWC shall conduct a pilot program to promote conservation through efforts to limit outdoor irrigation (including lawn watering) to two days per week in the following supply constrained systems:

- Hebron Center, Hebron
- Spice Hill, East Hampton
- Laurel Ridge, East Hampton
- River Crest, Portland
- Soundview
- Point O'Woods
- Heritage Village

The company shall pursue approval of appropriate enforcement tools to implement such program through any or all of the following mechanisms: (a) adoption of local municipal ordinances, (b) approval by PURA of revisions to company's Rules and Regulations to implement fees or special charges, and (c) collaborate with stakeholders to advocate for legislation or other tools to reduce non-essential outdoor water use as recommended by AWE and/or WPC.

On or before January 31, 2021 CWC shall report the pilot results and the availability of appropriate enforcement tools to DEEP, OCC and PURA and shall thereafter work with DEEP, OCC and other stakeholders to develop an implementation plan based on the results of the pilot to be submitted to PURA for review and approval. The Connecticut Utilities will not seek to recover the costs of the pilot program in customer rates.

78. **USGS Streamflow Gauges.** Beginning July 1, 2020, CWC shall fund the operation of the following four USGS streamflow gauges

- a. Mount Hope
- b. Indian River
- c. Naugatuck
- d. Broad Brook

CWC agrees to pay for such costs for all gauges for a period of eight years and those costs shall not be recoverable in rates.

79. **Source Water Protection Measures and Sampling for Perfluoroalkyl Substances (PFASs)**

The Connecticut Utilities shall within 10 days of completion of the transaction provide evidence that they have secured a consultant to complete on a schedule proscribed by the Department of Public Health (DPH) the update of the inventory of land use requirements to include potential PFAS generators pursuant to DWS Circular Letter #2018-20 https://portal.ct.gov/-/media/Departments-and-Agencies/DPH/dph/drinking_water/pdf/DWS-Circular-Letter-2018-20-PFAS-Eval-WSP-Systems.pdf.

If potential PFAS generators are identified in the company's public drinking water supply watersheds, those facilities shall be identified and prioritized per the evaluation conducted under 25-32(d)-3i for sanitary inspections by the company pursuant to the RCSA section 19-13-B102(b), with inspection results included in the water company's annual watershed survey report beginning in the 2020 survey season.

The company shall submit a plan and schedule to DPH, OCC, DEEP, and PURA that will establish the prioritization of sample collection from its water supply sources that are highlighted as vulnerable per the above evaluation.