



## **CTWS/SJW MERGER COMMITMENTS**

### **PROMOTING LOCAL CONTROL AND DELIVERING BENEFITS FOR CUSTOMERS AND THE STATE OF CONNECTICUT**

Connecticut Water Service Inc., (“CTWS”) and SJW Group (“SJW”) are proposing the following legally binding commitments in support of their application to the Connecticut Public Utilities Regulatory Authority (“PURA” or the “Authority”) for approval of a merger pursuant to Section 16-47 of the Connecticut General Statutes. The commitments are proposed for Connecticut Water Company, Avon Water Company and Heritage Village Water Company (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. Customer Bill Credit** - 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 “Connecticut Utilities”). The credits will be applied to bills rendered during the period starting on January 1, 2020 through December 31, 2020 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.
- 2. Base Rate Freeze** - The Applicants agree to a general rate case stayout provision for Connecticut Water, Heritage Village and Avon Water, 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 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.
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.
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.

## 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.

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.
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.
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 by the year 2020.
23. **Participation in State Water Planning** - The Applicants agree to designate an individual from Connecticut 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.
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 in California or Texas.

## 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.
27. **Enhance Customer Assistance Program** - Connecticut Water Company shall enhance its H<sub>2</sub>O 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.
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.

## 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 the Connecticut Department of Energy and Environmental Protection ("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 the commitments without first obtaining approval to do so from the Authority.
44. **Compliance** - If the Applicants are in noncompliance with any of these commitments, the Applicants must file a plan with the Authority within 60 days of such noncompliance explaining the actions that are planned to address and rectify the noncompliance.

## **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.
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 sole 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.

### **XIV. 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 solely by the management of Connecticut Utilities with the approval of the Connecticut Utilities' Boards of Directors.

## XV. 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. **Notice of Investment** - SJW shall notify PURA within thirty (30) days after the announcement of any investment in a company made by SJW in any non-regulated business entity or in any regulated utility, provided that such entity represents more than ten-percent (10%) of SJW market capitalization as measured on the date on which the transaction is announced.
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 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.

63. **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.

## **XVI. 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.