

# **Essential Utilities, Inc. (WTRG) Q2 2024 Earnings Call Transcript**

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**Body**

Essential Utilities, Inc. (WTRG)

Q2 2024 Earnings Conference Call

August 06, 2024 11:00 AM ET

Company Participants

Brian Dingerdissen - VP, IR and Treasurer

Christopher Franklin - President and CEO

Daniel Schuller - CFO

Conference Call Participants

Ryan Connors - Northcoast Research

Durgesh Chopra - Evercore ISI

Michael Gaugler - Janney Montgomery Scott

Jonathan Reeder - Wells Fargo

Davis Sunderland - Baird

Presentation

Operator

Thank you for standing by. My name is Gini and I will be your conference operator today. At this time, I would like to welcome everyone to the Essential Q2 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. I would now like to turn the conference over to Brian Dingerdissen. You may begin.

Brian Dingerdissen

Good morning everyone and thank you for joining us for Essential Utilities' second quarter 2024 earnings call. This is Brian Dingerdissen, Vice President of Investor Relations and Treasurer at Essential.

If you did not receive a copy of the press release, you can find it by visiting the Investor Relations section of our website at essential.co. The slides that we will be referencing and the webcast of this event can also be found on our website.

Here is our forward-looking statement. As a reminder, some of the matters discussed during this call may include forward-looking statements that involve risks, uncertainties and other factors that may cause the actual results to be materially different from any future results expressed or implied by such forward-looking statements. Please refer to our most recent 10-Q, 10-K, and other SEC filings for a description of such risks and uncertainties.

During the course of this call, reference may be made to certain non-GAAP financial measures. A reconciliation of any non-GAAP to GAAP financial measures is posted in the Investor Relations section of the company's website.

We will begin the call today with Chris Franklin, our Chairman and CEO, who will provide an update on the company. And then Dan Schuller, our CFO, will provide an overview of our financial results before Chris closes the call.

With that, I will turn the call over to Chris Franklin.

Christopher Franklin

Thanks Brian and good morning everyone. Thanks for joining us. Let's start with some highlights from the quarter. First, we posted GAAP earnings of $0.28 per share, which really was a strong result when you consider the weather in Pittsburgh, which is our largest natural gas service area. It was about 45% warmer than normal. This, of course, resulted in significant lower gas usage and marks the second year in a row weather has been warmer than normal. You'll recall that weather normalization is a key element of our current Peoples rate case in Pennsylvania.

In an expression of its confidence in our business plan, our Board voted last week to increase the dividend by 6%, which continues our 33-year track record of annual increases in the dividend. The increases in expression of our continued commitment to delivering shareholder value, both through the dividend and long-term stock appreciation.

Let me touch on a couple of regulatory developments in Pennsylvania that have occupied our time. First, back in June, the Pennsylvania Public Utility Commission voted 5-0 to approve a C-motion that initiated some reform of the fair market value statute that was passed back in 2016. We see this as a positive step that should moderate purchase prices and rate impacts associated with municipal acquisitions.

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We also believe the new formula provides a guideline of how much purchase price will be allowed in rates, and we think it still promotes consolidation in the industry to a fair balance.

We appreciate the commissioners work on this important statute that helps consolidate a fragmented industry, and I believe it will provide a much greater certainty in the closing of transactions.

Now, secondly, and importantly, we reached a non-unanimous settlement on our Peoples rate case in Pennsylvania. And then recently, the Administrative Law Judge issued a strong recommended decision in line with that settlement, which includes the important weather normalization.

In Pennsylvania water rate case, our filing is nearly three years after the prior case, and we're requesting an overall rate increase of $126.7 million for water and wastewater. Dan will have a little more detail on that in just a moment.

Now, before I talk about operations, I want to mention that the Commonwealth Court, which is the state court in Pennsylvania, did render a decision on DELCORA in early June. And our legal interpretation of that decision indicates continued support of the legally binding asset purchase agreement between Aqua and DELCORA. All right.

Let's talk about operations for a moment. You may have followed the events around Hurricane Beryl. This is the large hurricane that hit Houston, Texas back on July 8. We initially had nearly 90 water and wastewater systems without service, largely due to power outages. With considerable help from mobile generators, we had many customers restored very quickly and all customers restored within three days.

I have to congratulate our team. They did an outstanding job in restoring service after the storm, and they were well prepared for the next storm should it come this year as well. And by the way, our new outage map is available to customers and proved very helpful during the storm in Texas.

Now, shifting to capital. We're on track to invest $1.3 billion to $1.4 billion this year to improve critical infrastructure across the company's water and natural gas platform. To help fund those improvements, we continue to seek low interest loans to help keep our rates affordable.

In the last three years, Essential has received approval for approximately $133 million in the form of 0% or low interest loans and approximately $59 million in the form of grants to fund projects like the PFOS mitigation that's required by the U.S. EPA.

So, we recognized that neither the company or our customers put PFOS in the water, and we continue to focus on opportunities to mitigate the cost impact for our customers. This is all in addition to the work we've done in suing the polluters. We still expect to recover about $100 million from the settlement of those lawsuits.

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You might recall that we have over 280 water systems that need PFOS mitigation, and we provided an estimate of approximately $450 million to complete this work. We remain on schedule to complete that mitigation by the deadline set by the Federal government.

Let's look at the next slide here. You have heard that infrastructure we took place back in mid-May. We took time that week to celebrate our construction and field teams for the great work they do every day. I'll remind you that we've invested over $4 billion in infrastructure since 2020, and it's having a real impact on the communities we serve.

In 2024 alone, we expect to replace over 300 miles of aged water and gas pipelines, providing even more reliability and resilient service to our customers. And of course, the plant work we do is to ensure our water is clean and safe from contaminants like PFOS and lead, among many others.

We were fortunate this year again to be included. This is the second consecutive year on USA TODAY's Prestigious List of America's Climate Leaders. The list identifies U.S. companies demonstrating the most substantial reductions in greenhouse gas emissions over a two-year period. This recognition highlights Essential's significant progress in reductions achieved between 2020 and 2022.

Speaking of environmental impact, our gas team continues to pursue opportunities to further reduce the company's carbon footprint. We recently announced an exciting hydrogen partnership with H Quest, an energy technology start-up, and the University of Pittsburgh. The demonstration project creates zero emission hydrogen energy directly from natural gas.

Peoples then blends the hydrogen with natural gas to assess impacts on pipeline operations and various home appliances. Again, this is a demonstration project, and we do not currently inject hydrogen into the distribution lines that serve our customers.

All right. With that, let me turn it over to Dan to discuss the financials and regulatory matters. Dan?

Daniel Schuller

Thanks Chris and good morning everyone. In this first slide, let's talk high level, and then we'll get into the details on the waterfall. Operating revenues were down due to the decline in natural gas commodity prices year-over-year, which positively impacted our customers' bills and due to weather, which was warmer than normal for the natural gas business as compared to the prior year.

In fact, as Chris mentioned, Pittsburgh was 44% warmer than normal for the quarter, and it's been 20% warmer than normal for the year so far. We also experienced lower water consumption in the second quarter than we did last year.

While we continue our focus on managing O&M expenses, the quarterly O&M shows an increase due to a few onetime factors, which I will cover on the waterfall. However, I will note that year-to-date O&M expenses are up a reasonable 2.9%.

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We achieved EPS of $0.28 for the quarter. Last year's second quarter was especially strong given higher-than-budgeted water volumes, some onetime credits in O&M and the impact of the natural gas Safe Harbor rule. We remain on track relative to our stated EPS guidance range when normalizing for weather and excluding the substantial gain on sale from the energy project sale.

Next, let's walk through the second quarter waterfall. On Slide 9, we have the revenue waterfall for the quarter. Moving left to right, we have rate increases and surcharges of over $18 million, with about $15 million of that coming from water and $3 million from gas.

Acquisitions and organic growth in the water business contributed $3 million, and then decreases due to lower volumes in both water and gas, as well as the impact of the purchased gas cost.

You may have experienced or noticed the excessively warm weather in June in the Mid-Atlantic, including here in Pennsylvania. This generally means higher water volumes due to irrigation.

Given the meter read cycle, however, we didn't see the impact of this in our second quarter results, but we do expect to see this impact on our Aqua Pennsylvania results in July and thus, in the third quarter. A few other states, Texas, Ohio, and Illinois, also had lower water consumption compared to a particularly strong quarter last year.

Let's talk about the natural gas business for a moment. Through May, each of the months this year has been warmer than normal, and this has had a real impact on our financial results.

This is exactly why we asked for a weather normalization adjustment in our ongoing Peoples rate case and why we're encouraged that it's included in the recommended decision that will be considered by the PUC Commissioners.

Next, let's take a look at O&M on Slide 10. O&M increased $9 million year-over-year for the second quarter. We saw approximately $1 million in increases in production costs and employee-related expenses combined, which I believe shows that we're through the extraordinary inflation period that everyone has experienced over the past few years.

Next, we had an expected increase of $1.3 million in operating expenses from newly acquired systems in our Regulated Water segment. The larger increases include additional costs from the Gas segment Universal Services rider, which is recoverable through a revenue surcharge as well as higher other expenses.

The customer service rider was actually a credit last year due to overcollection that occurred as gas costs fell more quickly than rates could be adjusted. Thus, the difference between that credit last year and the expense this year is reflected in the $2.6 million increase on the O&M waterfall.

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The $5.1 million Other includes a number of items, but last year, we had some lower maintenance and insurance expenses in the Regulated Water segment and this year, it was normal.

Additionally, we experienced lower capitalization in the Regulated Gas segment this quarter due to lower capital and direct spend, most of which should reverse later in the year.

This resulted in O&M that was up from last year, but for the year, we expect a positive story here. As noted earlier, O&M is up 2.9% year-to-date, which is in line with our historic norms.

Next, let's look at the EPS waterfall on Slide 11. Starting on the left of the EPS waterfall with $0.34 from last year, the next thing we see is the nearly $0.05 increase from regulatory recoveries and $0.005 from growth in the water business. These were offset by the increase in expenses, decreases in volumes of both water and gas and the impact of the other category. The other category here includes increases in depreciation, interest, taxes other than income taxes and income taxes due to the lower repair benefits.

The lower repair benefits are the result of the timing of the natural gas Safe Harbor release last year, which resulted in recording both the Q1 and Q2 benefits in the second quarter. A $0.28 EPS outcome depicted here would be more than $0.02 higher if we had the weather normalization as included in the recommended decision.

When we provided guidance in February, we indicated that, presuming normal weather, we would have 2024 EPS of $1.96 to $2, excluding the gain on sale of the energy project. Unfortunately, warmer-than-normal weather has significantly impacted the regulated natural gas operating results in both Q1 and Q2.

So, to better clarify our expected earnings versus guidance, if we take our anticipated full year reported GAAP EPS and we removed the $0.24 gain from the energy project sale, and then we add back about $0.08 due to warmer-than-normal weather to date, we would meet that target range. Of course, this presumes normal weather from here forward through 2024.

In conclusion, the story of the quarter includes unfavorable weather-related impacts for both water and gas and difficult O&M comparisons to last year. But the story for the year remains unchanged and we continue to see the merits of our long-term strategy of providing service to our customers across our platform, investing in needed capital improvement, managing our day-to-day O&M expenses, and maintaining our regulatory relations to deliver long-term shareholder value.

Before moving to regulatory recoveries, I do want to mention that we still intend to issue $250 million of equity this year through our ATM program.

Next, let's move to Slide 12 to provide an update on regulatory activity. This slide highlights our regulatory activity during this busy year so far. We continue to manage our regulatory activity to maintain safe and reliable service, earn a fair return on the capital we invest and minimize regulatory lag, while always considering affordability for our customers.

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As Chris mentioned, part of this is pursuing low interest loans and grants wherever possible across our footprint. Thus far, we've received authorization to increase water segment revenues by $25.8 million annually in Illinois, North Carolina, Ohio, and Pennsylvania. And the Kentucky and Pennsylvania gas businesses have surcharges that will increase revenue by $2 million annually.

We have significant water segment rate cases or surcharges pending in Illinois, New Jersey, Pennsylvania, Texas, and Virginia to total $169.9 million. A detail of these can be found in the appendix.

This includes the Pennsylvania water rate case, which we filed on May 23rd, nearly three years since we last filed. This case, while significant, is largely a capital case, and is proceeding as we would expect.

We're in the discovery phase now. We've got evidentiary hearings that are slated for October, and we expect a commission order in February. As Chris mentioned, we're optimistic about the progress of our PNG rate case, with the ALJ issuing a strong recommended decision in line with the non-unanimous settlement that was previously reached.

We expect this case to be on the PUC agenda in September with rates effective September 27th. And as noted, the recommended decision includes the weather normalization mechanism that would greatly reduce weather-related volatility going forward.

And with that, I'll hand the mic back to Chris. Chris?

Christopher Franklin

Thanks Dan. Let's touch on the municipal acquisition program for just a couple of minutes. As of this call, we have six signed asset purchase agreements in two states, and we have existing water and wastewater operations in both of those states. These acquisitions will add over 215,000 customer equivalents and total approximately $385 million in purchase price.

Now, let me note that over $100 million of that rate base is from deals that are not DELCORA. We continue to see a strong and healthy pipeline of opportunities for additional growth. And as I've said many times before, our pipeline is more than 400,000 potential water and wastewater customers, and we are having active discussions with all of those.

As I said before as well, with Chairman DeFrank C-motion approved by the Public Utility Commission in Pennsylvania, we are optimistic that there should be a much clearer path to closing municipal acquisitions in Pennsylvania in the future.

In addition, with the recently published EPA rules regarding PFOS, which includes a time line for compliance, we expect to see an increase in the number of opportunities, which should help further consolidate the water space in addition to mitigating the PFOS problem.

All right. So, in closing, let's review the guidance we provided in February and then updated in May and we'll reaffirm it today. In February, we provided guidance for 2024 net income per share to be $1.96 to $2.

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Now, on a GAAP basis, we anticipate exceeding this 2024 guidance as a result of the gain on sale of the energy plant assets. We mentioned the impact of warmer-than-normal weather a few times on this call that resulted in lower regulated natural gas operating revenues for the year-to-date.

Through 2028, we plan to invest approximately $7.2 billion in regulated infrastructure on existing utilities. In 2024, we expect to invest between $1.3 billion and $1.4 billion, and we'll stay on track for this. And we are on track so far, already spending $548.9 million year-to-date.

Based on this investment, we expect rate base to grow at a compounded annual growth rate of approximately 8% for water and approximately 10% for natural gas through 2028, and the combined utility rate base will grow at a compounded annual growth rate of over 8%.

We continue to expect that together, organic customer growth and growth from acquisitions for water and wastewater will continue at a rate of 2% to 3% per year on average. We remind investors that growth from acquisitions are lumpy and should be viewed over a three-year average. We expect continued stability in our natural gas customer base.

We mentioned before that we expect to raise approximately $250 million in 2024 using our ATM equity program. We remain committed to reducing Scope 1 and Scope 2 greenhouse gas emissions by 60% by 2035, and that's from a 2019 baseline. As you know, we've already made significant progress, and we estimate that we are over 25% as of the year-end 2023.

With that, I'll conclude my formal remarks, and we'll open it up for questions.

Question-and-Answer Session

Operator

Thank you. The floor is now open for questions. [Operator Instructions]

Your first question comes from the line of Ryan Connors with Northcoast Research. Please go ahead.

Ryan Connors

Good morning. Thanks for taking my question.

Christopher Franklin

Good morning.

Ryan Connors

Good morning. I want to start on -- Chris, you mentioned the C-motion and the PUC reform on Act 12. On a separate parallel track of that, which I know there's some legislation out there that would actually make some legislative change, including, I guess, there's talk of even a repeal of Act 12, does the PUC reform process kind of stall that and for now? Or are those things still -- are those efforts still ongoing legislatively?

Christopher Franklin

Yes, Ryan, it's a great question. And I think we've made tremendous progress with the C-motion. Chairman DeFrank really showed real leadership in the commission in getting that through. But I don't think it deters the legislative action.

I -- just given the schedule in Pennsylvania, the election and the short schedule in the fall, not even sure that the House will come back in session in the fall, I'm not overly optimistic that something could pass this fall.

What I would say is there's not an appetite when you look at the full House and Senate to pass a repeal of Act 12. And so I would say there's probably opportunity to get a compromise bill that has some of the things that you see in the C-motion codified and maybe a couple of other things. When I think about opportunities, I think about a greater definition or guardrails around affirmative public benefit.

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And I think if we get some of those things, done with some of the folks that want reform, I think there's an opportunity to get real progress accomplished. But I remain confident that we don't have the votes in the -- particularly in the Senate to re-peal Act 12 at this point in time.

Ryan Connors

Yes. Okay, that's fair. Now, on the Pennsylvania rate case, I know that not a whole lot you can say. It's a pending matter. But in other recent cases in Pennsylvania, we've seen where very significant turnout and so forth that some of these public hearings has been kind of an early indicator of some issues in some cases.

I mean I know your public hearing cases input hearings are ongoing, I think this week and next. Any early read from your team about what's coming out of those public input hearings? Any surprises, anything that would give you any concern as it relates to the public feedback.

Christopher Franklin

Yes, so far, we've not seen anything that would surprise us or particularly come to concern. Listen, I'm always empathetic to customers who are concerned about rising bills. It's continuous discussion internally here on affordability. And so I have a great empathy for folks, and we're going to do everything we can to try to accomplish the mission and do it at the most affordable levels.

And I know I told you at one of the hearings too, Ryan, I try to get out personally. I want to hear from people personally, so I sat in the back of the room yesterday and listened to some of the comments.

But the good news is there really wasn't anything about service or reliability or the core capabilities that we provide to our customers in terms of water and wastewater services in this instance. So, listen, we'll continue to listen and react appropriately, but nothing has been surprising to this point.

Ryan Connors

Got it, okay. And then just one last one on housekeeping. Maybe, Dan. On the tax rate, I mean, I know there's been noise as you said, in the timing of the repair benefits, any directional help you can give us for the balance of the year modeling on the income tax line?

Daniel Schuller

Yes, a little bit for it, Ryan. So, we still anticipate that we'll have a slightly negative ETR at the end of the year. So, I think, like single-digit negative ETR for 2024. I mean as we think ahead to 2025, I think that probably getting a little more toward breakeven.

Ryan Connors

Got it. Okay, that's helpful. Thanks for your time.

Daniel Schuller

Thank you.

Christopher Franklin

Thanks Ryan. Take care.

Operator

Your next question comes from the line of Durgesh Chopra with Evercore ISI. Please go ahead.

Daniel Schuller

Hey Durgesh.

Christopher Franklin

Morning Durgesh.

Durgesh Chopra

Hey team. Good morning. Thank you for giving me time. Just -- Chris, I wanted to get your thoughts on the PFOS program that you have in place. Just the Supreme Court decision since the last time we spoke, how does that change things, if any?

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Christopher Franklin

Yes, we -- it's a good question, Durgesh. So, we've been in communication with the commissions that oversee the states where we have the majority of the work to do. And what we're hearing from our regulators is they'll get this thing done and focus on a PFOS mitigation, focused on the current levels, and that's exactly what we're doing.

So, we're full speed ahead. We remain with an estimate of about $450 million to do our work on 280 systems, as I said in the formal remarks but I think importantly, when we're getting the right signals from leadership at the commissions, then we have high confidence that not only will we accomplish the task of mitigation, but that we'll get recovery in the appropriate level in rates once the work is done. So, we're full speed ahead.

Durgesh Chopra

Got it. It sounds like the commissions in different states are driving this, and so no changes there. A couple of modeling questions for Dan. Just Dan, can you remind us or tell us if you have issued any equity so far versus the $250 million target? That's one?

And then just second, as we think about balance of the year, I think you mentioned that we'll see some weather benefit in Q3 in Pennsylvania, but then you said other states were lower relative to -- in terms of sales -- or weather-wise relative to last year.

Can you just sort of talk in terms of guidance? Q3 so far, is it positive from a weather standpoint relative to guidance relative to normal? Or is that still a headwind? Those two questions, please. Thank you.

Daniel Schuller

Yes, certainly. Let's start with the weather first, Durgesh. So, we are seeing in July or July numbers, not fully baked yet, but we are seeing some positive benefits from weather as we anticipated for July.

Now, first portion of the year, we were behind a little bit on weather. So, this helps us catch up, if not, get a little bit ahead. And then in terms of your question regarding equity, so we're just in the process now. We'll stand up that ATM next week. You might have looked and not seen a filing for that yet.

And just given the fact that we didn't immediately need the cash and for much of the time between our last earnings call and this earnings call, our stock was kind of at a depressed price, we weren't really in a hurry to issue equity. But we will get started on that shortly here and still look to issue, as I said in the prepared remarks, about $250 million through the balance of the year.

Durgesh Chopra

Perfect. That's all I had. Thank you guys again.

Christopher Franklin

Take care Durgesh.

Operator

Your next question comes from the line of Michael Gaugler with Janney Montgomery Scott. Please go ahead.

Christopher Franklin

Morning Mike.

Daniel Schuller

Good morning Mike.

Michael Gaugler

Let's start on DELCORA. Some good news there, obviously. Just wondering what the next steps for you, if any, might be? Or are we kind of still in just a waiting mode?

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Christopher Franklin

Well, we continue to have ongoing conversations at the county. And I think we're all watching carefully to see what it looks like there in terms of their budget this year. As you might recall, last year, they had raised taxes about 5%. There is some public discussion about having to raise taxes again this year. We think we should be part of that conversation because certainly, the sale of DELCORA would raise them more than they would need coming from tax increases.

And our modeling continues to show that even despite some reduced capital spending, the plan, we would still have lower rates. And in our model, we're showing a 2% annual increase over a decade. And so really strong outcomes for the county.

So, we still think we have a pretty compelling case, and maybe even more compelling as they come into budget season here in the next six weeks. So, you have that aspect, so that conversation is going on.

And then we still have the Federal Bankruptcy Court judge, who is dealing with the bankruptcy of the city of Chester, who has to stay on all progress at this point. So we continue to wait for an appeal there. And we're hopeful that, that stay is lifted sometime in the relatively near future.

And then if that were to occur, it would immediately then start right back at the Public Utility Commission in Pennsylvania. And I'm optimistic about proceeding there. So, I can't put a time line to it, but we -- our guidance has been estimated by midyear 2025. We're midyear 2024 here. So, we still think we have a shot at that should something break loose here soon.

Michael Gaugler

That's good. And then in terms of the second half of the year, I noticed here in 2Q, the estimates were somewhat all over the map. And I know you've got a rate case coming up. That's going to be settled soon on the gas side. Just wondering what you're seeing in terms of cadence or what people should expect in terms of earnings cadence, 3Q and 4Q, particularly given the commentary that was just offered on positive weather impacts here in the third quarter?

Daniel Schuller

Yes. Happy to do that, Michael. So, when we think about the -- our forecast versus consensus, we would say that consensus for the third quarter is high and consensus for the fourth quarter is low. So, as you think about refinement to your models, let me give you a couple of pointers here.

For Q3 2023, that included an extra $0.085 of earnings from the gas repair safe harbor rules. So that if you're building off the 2023 reported $0.30 from the third quarter, you'd be too high.

So, keep in mind that this quarter will not yet have the impact of the pending gas rate case. And we've also got another year of lag on the water side relative to where we were last year. Now, weather looks good so far on the water side, but -- as you know, the impact of weather on water is not as extreme as it is on the gas side.

Michael Gaugler

Understood.

Daniel Schuller

Let me touch on Q4, if I could, Michael, real quick.

Michael Gaugler

Sure.

Daniel Schuller

Q4 -- by comparison, we think about Q4, the -- as I said, the Q4 estimates are light. And if you're light, you might not be accurately reflecting the benefits of the pending rate case in gas.

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And also if you're building off the Q4 for 2023, you want to keep in mind that last year, the reported $0.50 was weakened by warmer-than-normal weather in December and a one-time tax charge had an impact of about $0.068 in the fourth quarter last year.

So, those items should be helpful as we think about the balance of the year. And as we've said, we expect to be in the $1.96 to $2 range on a weather-normalized basis once we exclude the impact of the energy project sale.

Michael Gaugler

Very helpful. Thank you, Dan. And then I'll up just one more in 10-Q filing today, tomorrow?

Daniel Schuller

Today or tomorrow, I think that's -- think about it that way, Michael.

Michael Gaugler

All right. Thank you.

Daniel Schuller

You'll get soon. Thank you.

Operator

Your next question comes from the line of Jonathan Reeder with Wells Fargo. Please go ahead.

Christopher Franklin

Hey Jonathan.

Daniel Schuller

Good morning Jonathan.

Jonathan Reeder

Good morning Chris and Dan, how are you all?

Christopher Franklin

Well, thanks.

Jonathan Reeder

Good. I wanted to get your thoughts or maybe what went on in the Board's decision this year to only increase the dividend 6%. I know it breaks the streak of doing 7% going back to like 2017.

Daniel Schuller

Yes. So, our dividend payout ratio, as you've seen, has been fully increasing. And our stated objective is to keep the dividend payout ratio full of 65%. So, we set our dividend growth rate at 6% this year really to moderate the increase in that payout ratio. It's really that simple.

Jonathan Reeder

Okay. So, now the payout ratio is kind of where it needs to be or where you're targeting? And then if we're thinking about the going forward rate, you'd be likely increasing the dividend commensurate with, I guess, the EPS growth? Is that fair?

Daniel Schuller

Yes. I mean, as you know, we make this decision 1 year at a time, but we'll continue to think in those terms.

Jonathan Reeder

Okay. And then just kind of -- sorry, were you saying something Chris? Sorry?

Christopher Franklin

No.

Jonathan Reeder

Okay, I don't want to cut you off. So, just clarifying something. The estimated $0.08 weather headwind year-to-date, is that also including the lower volumes of the water segment? Or is that just purely the gas?

Daniel Schuller

No. That's purely the gas. And maybe that's something we could be more clear on in the future. But we haven't talked much about weather impacts on the water side. On the water side, if we thought just about the quarter, water consumption probably is about a $0.005 impact for the quarter, whereas on the gas side, I think $0.08 year-to-date for an impact and about $0.03 for the quarter.

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Jonathan Reeder

Got it, okay. So, then the lower water volumes and revenues that you talked about, I mean, that's just exclusively due to that meter recycle? Or is there something--

Daniel Schuller

No, I think it's -- we just had lower water sales through the first part of the year in a number of our states. Specifically, what I mentioned in the prepared remarks were that in Pennsylvania, in the back half of June, we had very hot, dry weather, and we would have presumed to see a bump in revenue.

We certainly saw a bump in that month in terms of our send out from our plants, but the way the meter read cycle works is the back half of the month ends up being primarily estimated, so you pick up that revenue in the subsequent months, so in July. And our numbers for July for Pennsylvania, they do reflect that pickup from the back half of June.

Jonathan Reeder

Okay. So, then that light, $0.025 difference between Q3 -- or sorry, Q2 2023 and Q2 2024 should reverse largely?

Daniel Schuller

Yes. Exactly. That specifically on it. But I would say, if we look at our comparison to last year, as you saw, we had a pretty stark comparison of water revenue. The water volumes relative to last year had a $9.7 million impact. But last year, what I'd say is water volumes were significantly ahead of budget or normal, whereas this year, we've been a bit below.

Jonathan Reeder

And I'm trying to get if that's because of this the meter cycle or if it's actually underlying usage? Because I know you and American Waterworks on sort of the same territories, but they were kind of talking the opposite direction saying the anticipated declines in usage from those elevated levels in 2023, the anticipated decline in usage weren't as great as they were thinking they would be in 2024?

Daniel Schuller

Yes, that sounds like that is the result for them. But in our case, I'd say we had significantly higher water sales last year relative to budget and somewhat lower sales this year relative to budget.

Jonathan Reeder

Okay. And those are not really necessarily weather influenced, I guess?

Daniel Schuller

Well, and I would say last year, we saw a significant influence in a couple of states that -- including states that are not in like Texas, for example.

Jonathan Reeder

Yes, okay. All right. Thanks. Thanks for bearing with me there and giving me the additional detail.

Daniel Schuller

No problem. Thank you.

Operator

[Operator Instructions]

And your next question comes from the line of Davis Sunderland with Baird. Please go ahead.

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Christopher Franklin

Good morning Davis.

Daniel Schuller

Hey Davis.

Davis Sunderland

Good morning Chris, good morning Dan. Thanks for taking the time guys, I appreciate it. Two for me, both on the M&A pipeline. And actually, the first one, just a quick one. Chris, since the C-motion earlier in the quarter, have you seen any change in -- or any uptick maybe in M&A activity? Or now that there's a bit more certainty or I guess, maybe a level playing field is the right way to say it, or just a broader understanding there. Have you seen any change to that pipeline?

Christopher Franklin

It's hard to say because it's been so soon, whether there's a change in the pipeline. But what I would say is there's a lot of discussion with municipals trying to understand the new rules.

And so what I would expect to see is once the -- there's RRR, which is this guideline that they're going to issue in the coming days here, once that's issued, I would expect municipal to start doing the math and say, okay, if I take depreciated original cost, and I look at the multiple, how do I think about that? Is that fair or not?

I'd like to think that they will think it's fair. It's not going to be certainly excessive as somewhere before, but I think they'll see it as fair. And I think that will begin to initiate even more conversations once that's issued, and that's coming in the coming days here.

Davis Sunderland

That makes sense. And yes, super early, so thank you for those comments. And then maybe just secondly, a few peers in the industry have talked about maybe seeing some softening of sellers' expectations as it relates to valuations for their systems, and maybe some of this is due to realizing PFOS is going to be really expensive or otherwise. But maybe any thoughts on what you guys are seeing in this regard for M&A in your guys' jurisdictions?

Christopher Franklin

And are you speaking specifically about municipals at this point or just generally?

Davis Sunderland

Generally speaking, but I guess thoughts on municipals would be helpful, too.

Christopher Franklin

Yes, I do think that, that's also ramping up. And of course, those are conversations that we're having directly with municipals in terms of what they're facing and the levels of contamination they're seeing and then how they go about it.

And once those costs start to become real to them, I think they'll start to look at, in many cases, look at optionality. And I would expect those conversations to be had really in this year. I don't think this Supreme Court issue really impacts them. I think people will look to comply.

Davis Sunderland

That makes sense. That's helpful. Thanks for the time guys. Appreciate it.

Christopher Franklin

Take care.

Operator

That concludes our Q&A session. I will now turn the conference back over to Chris Franklin for closing remarks.

Christopher Franklin

Thank you, and thank you all for joining us. As you know, we're always available. Dan, Brian, myself, make ourselves available if there are any follow-up questions, but really appreciate you joining us today. Thanks again.

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Operator

This concludes today's call. You may now disconnect.

**Load-Date:** August 6, 2024

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