Q1 2015 Earnings Call

Company Participants

- Durgesh Chopra
- Linda G. Sullivan
- Susan N. Story
- Walter J. Lynch

Other Participants

- Daniel Eggers, Credit Suisse Securities (USA) LLC (Broker)
- Ryan M. Connors, Boenning & Scattergood, Inc.
- Shahriar Pourreza, Guggenheim Securities LLC
- Spencer E. Joyce, J.J.B. Hilliard, W.L. Lyons LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to American Water's First Quarter 2015 Earnings Conference Call. As a reminder, this call is being recorded and is also being webcast with an accompanying slide presentation through the company's Investor Relations website.

Following the earnings conference call, an audio archive of the call will be available through May 14, 2015 by dialing 1-412-317-0088 for U.S. and international callers. The access code for replay is 10063598. The online archive of the webcast will be available through June 8, 2015 by accessing the Investor Relations page of the company's website located at www.amwater.com.

I would now like to introduce your host for today's call, Durgesh Chopra, Director of Investor Relations. Mr. Chopra, you may begin.

Durgesh Chopra {BIO 20053859 <GO>}

Thank you, Alison. Good morning, everyone, and thank you for joining us for today's call. As usual, we'll keep our call to about an hour. At the end of our prepared remarks, we'll have time for questions. Now before we begin, I'd like to remind everyone that during the course of this conference call, both in our prepared remarks and in answer to your questions, we may make statements related to future performance.

Our statements represent our most reasonable estimates. However, since these estimates deal with future events, they are subject to numerous risks, uncertainties and other factors they may cause the actual performance of American Water to be materially different than the performance indicated or implied by such statements. Such risk factors are set forth in the company's SEC filings.

I encourage you to read our 10-Q on file with the SEC for a more detailed analysis of our financials. We will be happy to answer any questions or provide further clarification if needed during our question-and-answer session. All statements in this call related to earnings per share refer to diluted earnings per share.

And now, I'd like to turn the call over to American Water's President and CEO, Susan Story.

Susan N. Story {BIO 3335156 <GO>}

Thanks, Durgesh. Good morning, everyone, and thanks for joining us. With me today are Linda Sullivan, our CFO, who will go over the first quarter financial results; and Walter Lynch, our COO and President of Regulated Operations, who will give us updates on our Regulated business.

Once again, we delivered solid results for the first quarter of 2015, despite challenging winter weather in some of our states. This is a direct result of our employees who are out there every day working for our customers to make these financial results happen.

Turning to slide five, our quarter-over-quarter revenues increased 2.8% to $698 million. Earnings from continuing operations were $0.44 per diluted share. This is a 7.3% increase over the 2014 adjusted EPS of $0.41, excluding the $0.02 cost impact from the Freedom Industries chemical spill in the first quarter of 2014.

Turning now to slide six. You see our growth triangle and highlighted the progress we are making on delivering on our strategy. Our foundational base for earnings growth continues to be the capital investments that we're making in our regulated operations in order to provide clean, safe and reliable service to our customers.

During March the 31st, 2015 we've made about $167 million in infrastructure investments. We plan to invest $1.1 billion in our regulated business this year, in order to improve our water and wastewater systems with another $100 million budgeted for acquisitions and strategic investments.

Since the start of 2015 we have received rate case approval and infrastructure surcharges in several of our states. We also filed general rate case requests in three states and we have a pending settlement in Maryland. We're able to make needed infrastructure investments that are good for our customers and which minimize their bill impacts through both our continued focus on controlling O&M cost as well as the constructive regulatory mechanisms which are in many of our states.

As we've previously discussed, we increased our five-year capital spending plan by an additional $200 million to $6 billion total. Walter and Linda will discuss capital investments and O&M efficiency results more fully.

Moving to regulated acquisitions. The agreements we made in 2014 continue to move toward approval and closing. We recently received regulatory approval for the purchase of the wastewater system in Arnold, Missouri and we're on track for the closing of this and other pending acquisitions by the end of this year. We also announced last week the proposed purchase of Environmental Disposal Corporation, or EDC, adding 5,300 wastewater customers in New Jersey subject to BPU approval.

Moving to our market-based businesses. We continue to deliver solid results. Our Homeowner Services business recently launched its exclusive partnership with the Orlando Utilities Commission, offering a warranty service program to its more than 200,000 residential customers.

We also announced the renewal of our exclusive contract with the city of Burlington, Iowa and continued to grow enrollment in New York City, Nashville and other areas of the country. If you remember, we entered this business several years ago to address an unmet need that our regulated customers had with regards to the water pipes that were their responsibility. And this business has grown to leverage those competencies.

Also, as we look to our market-based business growth, we put special focus on those businesses, like military services, that have a regulated like risk profile. On our non-regulated shale there has been a lot of discussion within the oil and gas E&P sector regarding capital reductions and prioritization of the remaining capital.

This could potentially provide an opportunity for us as some of these companies recognize the value of American Water's expertise and our capabilities in developing long-term water supply solutions. While we are continuously evaluating opportunities in this space, we are disciplined in our approach and we don't have to rely on shale to meet our EPS guidance.

Slide seven illustrates our ongoing commitment to our shareholders. The American Water Board of Directors last week raised the dividend about 10% to $0.34 per share. This is the third consecutive year of double-digit percentage increases to our dividend. Comparing the dividends paid from 2010 through 2014, we're in the top quartile of dividend growth compared to the Dow Jones Utility Average companies and to our water peers.

Based on our performance year-to-date, we reaffirm our 2015 earnings guidance from continuing operations to be in the range of $2.55 to $2.65 per share. We're off to a good start this first quarter and we remain committed to delivering on our long-term EPS growth goals of 7% to 10% through 2019 anchored from our 2013 earnings.

So with that, Walter will now give us an update on our Regulated business.

Walter J. Lynch {BIO 6064780 <GO>}

Thanks, Susan, and good morning, everyone. As Susan mentioned, we're off to a great start in 2015, continuing our commitment to investing in our infrastructure while focusing on improved O&M efficiency to mitigate the rate impacts for our customers.

Turning to slide 10, in recognition of the investments we made to ensure clean, safe and reliable service for our customers, we received a rate order in California providing $5.2 million of incremental revenues effective January 1, 2015.

This rate case outcome continues to demonstrate constructive regulation in California allowing recovery of SAP costs, sharing of one-time proceeds from groundwater contamination litigation and a forward test year approving $126 million of new investments through 2017. Susan will be speaking in more detail later in the call about California water supply challenges but I wanted to emphasize that we're working hard in California and our other states to balance needed investments with what customers pay for service.

In West Virginia last week we filed a rate request for $35.6 million. The primary driver in this request is the investment of approximately $105 million in system improvements made since 2012 as well as an additional $98 million that the company plans to spend on recurring and investment projects through February 2017.

These capital investments include upgrades to the water distribution system, water treatment facility, storage tanks and pumping stations. All are necessary to maintain and improve water quality, reliability, fire protection and customer service for approximately one-third of the state's population served by West Virginia American Water.

The request also includes a reduction in operations and maintenance expenses of $1.1 million when compared to the last rate filing. In fact, the current operations and maintenance expenses are at their lowest level since 2010. This rate case does not include the cost incurred from the Freedom Industries chemical spill.

West Virginia American Water is seeking to the further recovery of cost related to the Freedom Industries chemical spill to a separate future proceeding. We believe that by moving these spill costs to a separate proceeding, stakeholders can better focus on our ongoing provision of safe, clean and reliable water and wastewater service to our customers.

As you know, one of our goals is to pursue constructive regulatory mechanisms and legislation and we've made some great progress in that front in Indiana.

I'd like to highlight three of these bills signed into law in the last few weeks. The first is an amended DSIC bill, which increases the DSIC revenue cap from 5% to 10%. Further allowing us to replace our aging infrastructure before problems occur.

The other two bills signed into law include a Referendum bill that provides extra time for public education during the sale of a water or wastewater system as well as new legislative authority for the Indiana Utility Regulatory Commission to approve the recovery of a reasonable purchase price of a distressed utility.

Another highlight in our regulated operations is our 2014 water quality reports, also called consumer confidence reports. I'm proud to say that once again American Water scored well above industry averages for compliance with strict federal standards for water quality. At more than 99% compliance with Safe Drinking Water Act standards, we're approximately 15 times better than the industry average for compliance with drinking water quality standards, and 20 times better than the industry average for meeting all drinking water quality standards. This exceptional water quality record is directly attributable to the dedication and expertise of our people and the investments we make into our systems.

Moving to slide 11. We continue to improve our O&M efficiency ratio achieving 36.3% for the last 12 months. And as we've said previously our stretch target is to achieve an O&M efficiency ratio of 34% or less by 2020. This translates to our discipline approach to capital investments that help us maintain reliable service while minimizing customer bill impacts. So in closing and it can't be said enough, our efforts to improve operating efficiencies while ensuring high quality service and reliability delivers the best value for our customers.

And now I'll turn the call over to Linda for more detail on our first quarter financial results.

Linda G. Sullivan {BIO 7300156 <GO>}

Thank you, Walter, and good morning, everyone. I will start on slide 13 which is our new format intended to expand the transparency of our disclosures by showing the contribution to earnings per share by each business segment.

On the left side of the page, we show our consolidated first quarter results. Adjusted EPS from continuing operations was $0.44 per share, up 7.3% over the same period last year, after adjusting for the 2014 costs associated with the Freedom Industries spill.

The regulated segment continues to be our largest contributor towards earnings in the first quarter at $0.45 per share, our market based business contributed $0.04 per share and our parent company drag which is primarily interest expense on parent debt from the RWE period, was $0.05 per share. These solid results increased our consolidated adjusted return on equity for the 12 months ended March 31, 2015 by 40 basis points to 8.88%.

Now, let me discuss the different components of our first quarter adjusted EPS growth from continuing operations on slide 14. Our starting point is first quarter 2014 EPS from continuing operations of $0.41 per share, which is adjusted for the Freedom Industries chemical spill. We reported first quarter 2015 results of $0.44 per share or $0.03 above 2014 adjusted EPS.

The major drivers of this increase were first, $0.02 from higher incremental regulated revenue from rate increases and infrastructure surcharges for a number of our operating companies, partially offset by decreased demand from declining usage.

Next, regulated O&M was lower by $0.02 due to lower production costs, mainly from lower fuel and natural gas prices as well as the positive impacts of the California rate case settlement which allowed recovery of certain SAP implementation cost previously incurred. Partially offsetting these decreases were higher employee related costs, due to higher pension expense as well as higher uncollectible expense.

Depreciation, taxes and other was higher by about $0.01 per share, principally from growth associated with our capital investment programs in the regulated business. I would also like to note that the operating income of our market based business was relatively flat in the first quarter compared to last year. As the revenue growth was offset by the timing of expenses and higher claims in the homeowner services segment due to harsh winter weather. Also, due to weather we experienced delays in some construction projects within the military business segment, but expect that to pick up in pace in the balance of the year as the backlog of approved projects is currently at approximately $120 million.

In the appendix of the slide deck, we have included our revenue and expense bridge slides to provide more details of the variances I just discussed.

Now, let me cover regulatory highlights on slide 15, which shows rate cases and infrastructure filings awaiting final order and new rates that became effective since April 1 of 2014. In terms of pending rate cases, we are awaiting orders for general rate cases in three states with the largest being New Jersey and West Virginia for a combined total rate request of $101.9 million. As Walter mentioned, these rate cases demonstrate our disciplined approach to investing. In fact, our two large rate cases request recovery of over $975 million in much needed capital infrastructure investments while reducing requested operating costs by $20 million combined.

Also, we continue await a proposed decision in our Maryland rate case settlement for an additional $0.5 million in revenue and several of our operating subsidiaries filed for additional annualized revenues from infrastructure investment charges for a total of $4.4 million. For rates that become effective since April 1, 2014 through today we received a total of $55.4 million in additional annualized revenues from general rate cases, step increases and infrastructure surcharges.

These are the highlights of these cases and we advise you to review the footnotes in the appendix for a fuller understanding of particular cases.

Turning to page 16, I am pleased to announce that in late April, Moody's Investors Service, changed American Water's outlook to positive. This highlights our value offering as a geographically diversified regulated utility and our commitment to managing the overall financial strength of the company while maintaining our disciplined approach to investing, and we're really proud of that.

Slide 17 is a summary dashboard of our performance in the first quarter. During the first three months of 2015, we made capital investments of approximately $167 million to improve infrastructure in our regulated business. For the full year of 2015, we continued to estimate our total capital plan to be $1.2 billion, most of which will be in our regulated business.

The decrease in cash flow from operations during the quarter reflects changes in working capital. A significant portion of the change was related to higher cash collections in the first quarter of last year as we delayed some 2013 billings into the first quarter of 2014, when we implemented our new customer information system in late 2013.

In terms of our dividend increase, we increased the dividend by about 10%, which is in line with 2014 EPS growth. This annualized increase puts our payout ratio at 52% when compared with the midpoint of our 2015 earnings guidance range, or at the lower end of our target payout ratio of 50% to 60%. And building on the 7.3% increase in earnings per share this quarter, we are reaffirming our 2015 earnings guidance from continuing operations to be in the range of $2.55 to $2.65 per share.

With that, I'll turn it back over to Susan.

Susan N. Story {BIO 3335156 <GO>}

Thanks, Linda. In closing we are going to highlight American Water's leadership in delivering innovative solutions to address the two key water issues facing our nation today, water supply and aging infrastructure. These are very real issues that will affect our economy, our standard of living and other basic life functions into the future, if we don't plan well and execute the right actions now.

Unlike electricity, where you can build a plant to create more, if you have reduced surface water or groundwater supplies, and you've optimized conservation, your remaining options are pretty much desalination and water reuse. America Water is leading in all of these supply options as well as in conservation efforts.

California offers us the opportunity to utilize this wide array of expertise. As many of you know, with the drought worsening, the Governor of California issued a 25% mandatory reduction of water usage. Our Monterey Peninsula Water Supply Project is a critical part of addressing the ongoing drought there, while reducing our dependency on the Carmel River for supply.

This project includes a total investment of about $300 million which includes a desalination plant which will be owned and operated by California American Water as well as 30 miles of pipeline, two booster stations, and a reservoir.

Since energy can be up to 55% of the cost of operating a seawater desal plant, we will employ energy recovery devices to lower the plant's power use and we hope to purchase half of the power needed from an adjacent landfill site.

The plant will also include an innovative subsurface intake system which uses slant well technology that draws seawater underneath the sand near the shoreline and avoids the harming of marine life posed by traditional open ocean intake.

Lastly, we are adding two additional aquifer storage and recovery wells, to capture excess winter flows from the Carmel River which can be used during the dry summer months. Conservation is also critical in California and we have been a leader for years in educating our customers, offering rebates for water efficient appliances and fixtures and providing incentives for drought tolerant landscaping.

Our customers have already reduced their water usage significantly statewide and as much as 17% in Sacramento since 2013. And in addition to further promoting and educating customers on our current conservation programs and efforts, we are piloting a unique program in Monterey using advanced water meter technology that will enable customers to more proactively manage their water use.

They will be able to download individual daily water consumption information to monitor their use, setup text or email alerts to let them know if a leak is detected, or let them know when they are about to enter a new price tier or exceed a self-determined budget amount. All of these efforts are supported by constructive regulation that balances the long-term sustainability of the water supply and the utilities that treat and deliver that water.

We realize that as a nation's largest investor on water and waste water utilities we have to take the lead in solving our country's water and waste water challenges. Our 6,400 employees take that responsibility very seriously and we will ensure that our customers have the water services they need every day to live safely and comfortably.

And with that, we are happy to take any questions you may have.

Q&A

Operator

We will now begin the question-and-answer session. And our first question comes from Daniel Eggers from Credit Suisse. Please go ahead.

Q - Daniel Eggers {BIO 3764121 <GO>}

Hi, good morning, guys. Hi good morning.

A - Susan N. Story {BIO 3335156 <GO>}

Hi, Dan.

Q - Daniel Eggers {BIO 3764121 <GO>}

Hey, just looking at slide 11 and you guys were showing kind of progression toward your stretch target on efficiency ratio. Is 34% feeling like a stretch given the fact that you've got four years to get there or is that number going to keep pushing lower and you're going to surprise us again?

A - Walter J. Lynch {BIO 6064780 <GO>}

Well, the 34% is our stretch target and as you know as you get closer to that, it gets a little bit more difficult. So we still see that as achievable, but it's also a stretch target. So we're working towards that.

Q - Daniel Eggers {BIO 3764121 <GO>}

So the rate of improvement is going – we should be assuming in our numbers, the rate of improvement is kind of coming to a much slower move than what we've seen the last few years?

A - Walter J. Lynch {BIO 6064780 <GO>}

Yes, I'd agree with that.

Q - Daniel Eggers {BIO 3764121 <GO>}

On slide 33 in the back where you guys show the acquisitions completed last year and then what's kind of in-process this year, can you just remind us how much money was spent on the acquisitions capital investment wise in 2014 and then what is the total amount that you'd be putting forth in 2015 to close the deals that are ongoing?

A - Linda G. Sullivan {BIO 7300156 <GO>}

Dan, we had about $8.4 million that we incurred in 2014 for the closed acquisitions. And then we are – currently have approximately $100 million that we have set aside for strategic acquisitions and regulatory acquisitions for the full year this year, for these acquisitions as well as other pending.

Q - Daniel Eggers {BIO 3764121 <GO>}

So, Linda, you're going to have to find some more deals then what's on here to get to the $100 million, is that right?

A - Linda G. Sullivan {BIO 7300156 <GO>}

Yeah. Remember, Dan, we also have some flexibility in terms of the capital spend to deal with some timing issues there as well.

Q - Daniel Eggers {BIO 3764121 <GO>}

Okay. And then I guess just one last question the non-reg side, revenues were up fairly nicely in the quarter, but the expenses moved in step. Did you guys prefund some of the military work in the first quarter so that there will be more profit ongoing or is that – or just maybe explain why those things kind of move at the same rate?

A - Susan N. Story {BIO 3335156 <GO>}

Yeah. So we do see an increase in cost associated with the military contracts that is tracking with the revenue that we recorded. We also had some timing issues in the HOS business as we had some marketing and start-up cost with our Orlando and other contracts. And then we also as we continued to optimize the contract services business, we had some one-time adjustments last year.

Q - Daniel Eggers {BIO 3764121 <GO>}

So if I were to think about normalizing now kind of the Orlando upfront and some of those contract adjustments, how much extra cost was that in the quarter, just trying to get our bearings right?

A - Susan N. Story {BIO 3335156 <GO>}

So, I don't have those numbers right in front of me, Dan, but I think we can – the way that we look at it is that we've included all of those cost in our reaffirmed earnings guidance.

Q - Daniel Eggers {BIO 3764121 <GO>}

Okay. Got it. Thank you, guys.

A - Susan N. Story {BIO 3335156 <GO>}

Thanks, Dan.

Operator

Our next question comes from Shahriar Pourezza from Guggenheim Partners. Please go ahead.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning.

A - Susan N. Story {BIO 3335156 <GO>}

Hi, Shahriar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

So the delay I think we mentioned in the prepared remarks for the military contracts, was that more administrative or maybe just a little bit of color there?

A - Linda G. Sullivan {BIO 7300156 <GO>}

It was actually more weather driven.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Got it. Got it. That's helpful. On the E&P business, I think this has sort of been highlighted as a potential opportunity for some time. Are we sort of still in the early phases or are we kind of getting to the point where we'll see some inflection points?

A - Susan N. Story {BIO 3335156 <GO>}

Shahriar. This is Susan. We are – there are a lot of changes as you know in the E&P space. What we have found interestingly is that as a lot of the E&P companies are reducing their capital, they tend to look more toward their core business. And for the ancillary services, we found that there are more who are willing to sit down and talk. The real issue becomes the ability to do a partnership that is mutually beneficial. And as we have said before, we are not going to go with a high risk profile to get into that business. So anything we enter would have to require the – we would have to get the return of any capital we expend in a short period of time. So we are in discussions with different groups. I think it depends on the deal and we also want to make sure that it leverages the core competencies we have in the water business and doesn't get far outside of that.

So yes, we continue conversations. In terms of are we close or not, it just depends on the deal. And as we see the rest of this year unfold. One thing we do know is in our regulated side on shale, in 2015 we actually look very good for us because as while they are not opening as many wells, the ones they have are much more productive. So on the regulated side, we're seeing some movement there. On the unregulated, we just have a different way of looking at it to ensure we remain disciplined.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. Got it. That's very helpful. And then just top level pretty good growth in the non-regulated business, is this sort of a refreshed viewpoint on how large you sort of want this business to be as a percentage of consolidated results?

A - Susan N. Story {BIO 3335156 <GO>}

You know, Shahriar, as we've said before, currently the revenues from the market based business is about 10% or 11%. And so our goal is for the revenues or even net income to really let's talk about revenues first, not to be over 15% to 20% and we would only be comfortable over 15%, if that was the growth in military services in those parts of market base that are very regulated like, because we are constantly looking at the overall company risk profile to ensure that we don't move that profile.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it, excellent. Thanks, congrats on a good quarter.

A - Susan N. Story {BIO 3335156 <GO>}

Thanks.

Operator

Our next question comes from Ryan Connors from Boenning & Scattergood. Please go ahead.

Q - Ryan M. Connors {BIO 15032883 <GO>}

Great. Thank you. Good morning.

A - Susan N. Story {BIO 3335156 <GO>}

Good morning, Ryan.

Q - Ryan M. Connors {BIO 15032883 <GO>}

I wanted to ask a big picture question regarding the overall national regulatory landscape and specifically, regulated returns on equity, awarded returns on equity which have been kind of on a downward trend the last several years. I wanted to get your view on the outlook for ROEs, in particular whether you think that an improving economy and potential increase in interest rates could actually lead to a rebound in awarded returns over the next 12 months plus?

A - Linda G. Sullivan {BIO 7300156 <GO>}

So if we look out from ROEs, they are largely driven by changes in interest rates. And so if interest rates go up we would expect to see some increase in ROEs as well. In terms of recent decisions, we have had our cost of capital decision in California extended at 9.99% through the end of 2016, we did have our Indiana rate case approved with an increase from 9.7% to 9.75%. So we are seeing just slight movements in the ROE.

Q - Ryan M. Connors {BIO 15032883 <GO>}

Okay. Well, that's encouraging. Thanks, Linda. And then, my next question has to do with the California situation. We're kind of trying to get our arms around conceptually how the decoupling mechanism will be impacted by the conservation declines. And I guess my question is in theory, decoupling renders any consumption decline a non-event. But obviously the magnitude of these declines are – exceed what the PUC might have envisioned when they designed the system.

So my question is does this or will this complicate the implementation of the decoupling mechanism over the next as these huge consumption declines work through the system. And I guess specifically, could the RAM balances get to such a – so large that the PUC decides to extend the collection period over a longer timeframe to eliminate rate shock I guess?

A - Susan N. Story {BIO 3335156 <GO>}

Right, Ryan. And we're looking at that very carefully in California as to what would be the cash impact and the recovery period for any delays in collections under the RAM mechanism. The RAM mechanisms now with the California rate case are in virtually all of our areas. In California, they've been now approved. This has been a mechanism that California has supported for quite some time. And it really does drive the alignment of the utility companies and the customer to conserve and to work through the drought related issues.

A - Linda G. Sullivan {BIO 7300156 <GO>}

And you know also, one thing that's interesting is there is a national discussion about the price of water and there are those who would say that out West where you are having the scarcity, you're starting to see more appropriate value placed on water.

And so, as we look at this, we compare it to where we've been in the past, it will be interesting to see where this goes in the future though, especially as in 50 of the states in the U.S., 40 water managers say that in parts of their state, they believe will be in drought in the next 10 years. So I think the wider discussion about the value of water and what we do in terms of putting a price on water is pretty important and we may see that in California. We already are seeing that in California.

A - Susan N. Story {BIO 3335156 <GO>}

And Ryan, to both your point on ROE as well as California, we do operate in 16 regulated states. So we do have a diversified portfolio here and California represents just slightly less than 8% of our total revenue.

Q - Ryan M. Connors {BIO 15032883 <GO>}

Right, right. Okay. And just a quick question. Obviously you can't disclose what the content of this would be, but are you engaged or has the PUC engaged yourself and other peers and sort of discussed these issues and start to frame the regulatory response or is it sort of a black hole this point?

A - Susan N. Story {BIO 3335156 <GO>}

I wouldn't say it's a black hole. I will tell you that our team at California American is always looking for ways to work with our customers, find ways that we can work to ensure that the regulatory processes operate as they are intended operate and so we sit down at the table and open forum, our President Rob McClain participate in a lot of the water forums and the water conferences. So we are engaged in the dialogue throughout the state of California.

Q - Ryan M. Connors {BIO 15032883 <GO>}

Okay, great. And then just one final just quick one for me. The increase in claims on the service line protection, I assume that cold weather was a factor there but was there anything else going on that we need to be aware of in that respect?

A - Linda G. Sullivan {BIO 7300156 <GO>}

An increase in the number of contracts as well as cold weather.

Q - Ryan M. Connors {BIO 15032883 <GO>}

Okay, great, thanks for your time.

A - Susan N. Story {BIO 3335156 <GO>}

Thanks, Ryan.

Operator

Our next question comes from Spencer Joyce from Hilliard & Lyons. Please go ahead.

Q - Spencer E. Joyce {BIO 17611965 <GO>}

Good morning. Nice quarter. Thanks for taking our call.

A - Susan N. Story {BIO 3335156 <GO>}

Good morning, Spencer.

Q - Spencer E. Joyce {BIO 17611965 <GO>}

Just a couple of quick ones here from me. First one I want to ask about the New Jersey rate case. That $66.2 million of revenue asked is that inclusive of amounts that are already being recovered via the DSIC?

A - Walter J. Lynch {BIO 6064780 <GO>}

No, that's outside the DSIC mechanism. They will be included as part of the rate case in the end but the $66 million is for other things; investment, as you know if you've been following closely, we reduced our cost by $19 million since the last rate case. We invested $775 million in the infrastructure and that's more than we've ever spent in New Jersey. And so asking for 9.9% we think is a big win considering it was a three years since our last rate filing.

Q - Spencer E. Joyce {BIO 17611965 <GO>}

Yeah, absolutely very helpful. And also sticking with the New Jersey DSIC, we have gotten on a pretty good semiannual cycle there. With the rate case in progress now is it safe to assume that we may have a bit of stay out from the DSIC asks or would those be totally separate items there?

A - Walter J. Lynch {BIO 6064780 <GO>}

No, we time the DSIC with the rate case so we filed in early January. It typically takes 9 to 12 months for the rate case to make its way through the BPU to get an order. We are right in line with that, again we time the investment in DSIC with the timing of the rate case that we can continue to invest up to the cap.

Q - Spencer E. Joyce {BIO 17611965 <GO>}

Okay, perfect. Separately and from kind of a broad standpoint, have you seen perhaps the California drought discussion have any ripple effects across some of your other jurisdictions? And, I guess specifically I was surprised to see residential volumes down 6% on a firm-wide consolidated basis, is that perhaps more of that's California than I am expecting? But are you seeing any other usage declines that may be outside of drought stricken areas?

A - Susan N. Story {BIO 3335156 <GO>}

Spencer, there if you look at slide 27 it shows our billed volumes for this quarter compared to last quarter and there is a lot of noise in those billed volumes because we were implementing our customer information system in late 2013. And as a result of that implementation, we held some of our bills to ensure that we had a thorough review. When we verified that they were accurate and so we had higher bills that went in – that went out in the first quarter of 2014, which is what's really causing that difference. If you look at the actual revenue piece of it, that's where those differences are trued up in the unbilled revenue line item.

Q - Spencer E. Joyce {BIO 17611965 <GO>}

Okay.

A - Susan N. Story {BIO 3335156 <GO>}

And year-over-year decline in usage was actually $3.3 million.

Q - Spencer E. Joyce {BIO 17611965 <GO>}

Okay, perfect. I did notice the revenue didn't quite decline with the volume; that makes a lot of sense.

A - Susan N. Story {BIO 3335156 <GO>}

And Spencer, from a big picture standpoint, people are watching California, I think Texas is the next state that would be closest to that in terms of dealing with water supply issues. But we also know that in several states, especially, in Mississippi we tend to have rainfall amount that has been more normal so unless – it's pretty local.

So, when we are in these national conferences and we talk to folks, they are mindful of what's going on in California, but they are not really doing some of the same things. They are just kind of checking to make sure they have adequate water supplies and it actually helps us in terms of the replacement of aging infrastructure where in the country overall we lose 25% of all treated water every year through aging infrastructure, through leaks and all. So, this actually helps our case on aging infrastructure replacement because as we move into a time where there may be less water supply, we cannot afford to lose our water through leaks.

Q - Spencer E. Joyce {BIO 17611965 <GO>}

Understood. Very helpful. Thanks. That's all I had.

Operator

Having no further questions this will conclude our question-and-answer session. I would now like to turn the conference back over to management for closing remarks.

A - Susan N. Story {BIO 3335156 <GO>}

Thank you so much. So before we conclude our call, I want to remind everyone that our second quarter earnings call will take place on Thursday, August the 6th at 09:00 AM Eastern Time.

We also would like for you to save the date for our 2015 Analyst Day, which will be held on December the 15th in New York City. We'll provide you more information about this as we get closer.

We appreciate your interest in American Water and we commit to continue to be responsible stewards of your investment and the confidence that you place in us. We look forward to speaking with your all again soon. Thanks.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.