Q1 2020 Earnings Call

Company Participants

- Ed Vallejo, Vice President of Investor Relations
- Susan Hardwick, Chief Financial Officer
- Walter Lynch, President and Chief Executive Officer

Other Participants

- Durgesh Chopra, Analyst, Evercore ISI
- Jonathan Reeder, Analyst, Wells Fargo Securities
- Richard Verdi, Analyst, Coker and Palmer Investment Securities, Inc.

Presentation

Operator

Good morning and welcome to American Water's first quarter 2020 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, 2020. US callers may access the audio archive toll-free by dialing 1 (877) 344-7529. International callers may listen by dialing 1 (412) 317-0088. The access code for replay is 10142727. The audio webcast archive will be available for one year on American Water's investor relations website at ir.amwater.com/events.

I would now like to introduce your host for today's call, Ed Vallejo, Vice President of Investor Relations. Mr. Vallejo, you may begin.

Ed Vallejo {BIO 20515524 <GO>}

Thank you, Shawn. Good morning everyone and thank you for joining us for today's call. At the end of our prepared remarks we will open the call for your questions. During this conference call, both in our prepared remarks and in answers to your questions, we may make forward-looking statements that represent our expectations regarding our future performance or other future events. These statements are predictions based upon our current expectations, estimates and assumptions. However, since these statements deal with future events, they are subject to numerous known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from the results indicated or implied by such statements. Additional information regarding these risks, uncertainties and factors, as well as a more detailed analysis of our financials and other important information is provided in the earnings release and in our March 31, 2020 Form 10-Q, each as filed with the SEC. Reconciliations for non-GAAP financial information discussed on this conference call including adjusted income, adjusted earnings per share, adjusted return on equity, and our adjusted regulated O&M efficiency ratio can be found in our earnings release and in the appendix of the slide deck for this call. Also the slide deck has been posted to our Investor Relations page on our website.

All statements in this call related to earnings and earnings per share refer to diluted earnings and earnings per share. I should also note that consistent with our efforts to ensure the safety and health of our team, we're conducting this call while practicing social distancing and from remote locations. As an example, Walter and Susan are in separate locations. We don't anticipate any technical issues, but if for any reason technical issues do arise, Walter will take over and lead us through the full presentation. That being said, I will now turn the call over to American Water's President and CEO, Walter Lynch.

Walter Lynch {BIO 6064780 <GO>}

Thanks Ed. Good morning everyone and thanks for joining us. Today, I'll start by giving you a brief update on our COVID-19 response and then provide key updates on our business. Susan Hardwick, our CFO will cover the first quarter financial results and provide a few additional comments related to the implications of COVID-19. As you know, American Water provides clean, safe, reliable water and wastewater services and has continue to do so throughout this pandemic. American Water has established clear priorities across our organization focused in three areas, the first is the care and safety of our employees and their families. The second is the safety of our customers and the communities we serve, and the third area of focus is the execution of our preparedness plans so we can continue to provide essential services and help our communities get through this crisis.

Let me give some examples of the measures we've implemented. Because safety is our top priority, we've implemented required work from home policy where possible as well as social distancing and other enhanced safety measures for employees and customers. For example we've suspended all non-emergency in-home appointments and limited the amount and nature of contact with customers during field appointments. We've also worked hand-in-hand with labor across the business and supported our employees with paid leave for COVID-19 diagnosis, quarantine, and childcare.

We've suspended billing related to service shut-offs, suspended late fees and have restored service to customers who were previously shut off for non-payment. We're also working with customers who are experiencing financial hardships by offering customer assistance programs and access to low-income programs. Susan will cover this a bit more later, but we've implemented actions to strengthen our liquidity and ensure access to capital. We also continue to execute on our core strategies, such as making needed capital investment. We've increased communications with public service commissions, customers and public officials. As the COVID-19 impact continues to be assessed, American Water will work constructively with public service commissions as they look to address utility response measures, customer protection, and cost recovery for all regulated utilities in their jurisdictions.

Finally, we provided a $500,000 donation to the American Water charitable foundation to help fund COVID-19 relief efforts across the United States. This was in addition to $100,000 donation made to Feeding America to help support food banks. We understand we have a very important role during this crisis. We provide water and wastewater services for hygiene, hospitals, sanitation, and fire protection. We thank all our employees for continuing to provide these essential services.

Moving on to first quarter results, the employees of American Water delivered solid results and further strengthened our low risk profile and predictable growth story. Our first quarter 2020 adjusted earnings per share increased 9.8% compared to first quarter 2019.

We invested capital of $457 million in the first quarter of 2020, which is a 36% increase over the same period last year. This increase is driven by the continued investment in our systems and the communities we serve along with more favorable construction weather this year versus last. As you know, we work hard to minimize the customer bill impacts of these investments through a continued focus on controlling O&M costs. I'll talk more in a moment about our regulated operations, our continuing progress on regulated acquisitions and their contributions to our long-term growth story.

Our market-based businesses were up $0.01 in earnings per share. This was due primarily to growth in customer contracts from homeowner services. As a reminder, in the third quarter of 2019, our Military Services Group was awarded two military contracts, Joint Base San Antonio in Texas and the United States Military Academy at West Point, New York. We're on track to assume operations by the second quarter of 2020.

Moving to Slide 7. The foundation of our earnings growth continues to be the capital investment we make in our regulated operations to provide clean, safe and reliable service to our customers. We believe that long-term financial success depends on effectively executing the fundamentals of our business every day. We plan to invest $20 billion to $22 billion in capital over the next 10 years to ensure the quality and reliability of our services and to bring water and wastewater solutions to communities across the country. We are affirming our long-term EPS compound annual growth rate in the 7% to 10% range. We also expect our 2020 adjusted earnings to be in the range of $3.79 to $3.89 per share. This is the same range we communicated in February, which should have been identified as an adjusted EPS range. Our GAAP earnings are expected to be in the range of $3.85 to $3.95 per share. In her comments, Susan will provide additional information about the difference between our GAAP and adjusted guidance ranges. Also consistent with our previous dividend guidance on April 29, 2020, our Board of Directors increased our quarterly cash dividend payment from $0.50 per share to $0.55 per share, a 10% increase. We understand that a secure and growing dividend is important to our shareholders. While striking the right balance with continued investment in our regulated operations.

Turning to Slide 8. Let's walk through some of the regulatory highlights of the first quarter 2020. Pennsylvania -American Water filed a general rate case last week, requesting $92 million in the first year and $46 million in the second year. Since our last case in 2017, Pennsylvania-American Water will have invested one $1.64 billion in infrastructure upgrades for the 4-year period of 2019 through 2022 including replacing more than 427 miles of aging water and sewer pipes. The case also includes enhancements to our customer assistance program. Traditionally, the Public Utility Commission's review of the filing may take up to 9 months and new rates would not be effective until 2021.

Also in Pennsylvania, the Public Utility Commission approved the Company's revision to its wastewater DSIC. This action allows the DSIC to be applied to another 50,000 wastewater customers effective May 1. We also have 3 pending rate cases in New Jersey, Virginia, and California. New Jersey-American Water filed a general rate case in December 2019 requesting an overall revenue increase of approximately $88 million excluding the revenue from DSIC. Since our last rate case, we've invested more than $1 billion in system upgrades. Virginia American Water filed a general rate case requesting an overall revenue increase of $5.6 million in November 2018. This case was driven by approximately $98 million in infrastructure upgrades since April 2017.

Interim rates became effective on May 1, 2019 and we expect the decision later this year.

Moving west, California American Water filed for new rates in July 2019. The case covers 2021 through 2023 and requests an increase in authorized revenue of $46.6 million over three years. The request seeks $197 million for infrastructure improvements planned for 2021 and 2022. Due to COVID-19, the evidentiary hearings were moved from April and May to early June with final hearing dates expected in late August. We now expect the decision on this case as early as first quarter of 2021. In addition, we filed a motion for interim rates to be effective back to January 1, 2021.

On the legislative front, during the quarter, Indiana Governor, Holcomb, signed two bills; the first one authorizes recovery for above ground infrastructure without a full rate case and the second establishes an appraisal process for non-municipal utilities to establish fair value and a reasonable purchase price. In West Virginia, Governor Justice signed the Water and Wastewater Investment and Infrastructure Improvement Act. Effective June 5, this legislation creates a voluntary process to use fair value assessments to determine the value of the water or wastewater systems, enables combined water and wastewater rate-making, and expands how municipalities can use the proceeds they receive from selling utility assets to better address needs in their communities.

Finally in Virginia, Governor Northam signed fair market value legislation, which will go into effect on July 1. This is now the 9th state that has adopted fair market value legislation across our footprint. All this legislation is focused on helping communities and utilities address water and wastewater challenges.

Moving to Slide 9. Customers remain at the center of every decision we make today and into the future. This means smart investments, balanced by efficient operations and capital deployment. As I mentioned earlier, in the first quarter, we invested $457 million with the majority in our regulated businesses, including $432 million in infrastructure investment and $21 million in regulated acquisitions. As we make these critical investments to maintain reliable service, we must also ensure affordability for our customers. We'll continue to focus on O&M efficiency and work toward our O&M efficiency goal of 31.3% by 2024. For the 12-month period ended March 31, 2020, our O&M efficiency ratio improved to 34.5% compared to 35.5% for the 12-month period ended March 31, 2019. Now to put this into perspective, our adjusted O&M expenses are just slightly higher today than they were in 2010. Since then, we've added approximately 276,000 customer connections while expenses only increased at a compound annual growth rate of 0.7%. We're very proud of our employees' focus and commitment to controlling costs on behalf of our customers, especially given the current situation and economic challenges some of our customers are now facing.

Moving on to Slide 10. We believe our commitment to putting customers first is a key to growing our regulated footprint. So far in 2020, we've closed on five acquisitions in four different states adding about 6,200 new customer connections. We've also added more than 3,200 customer connections through organic growth in the first quarter. We look forward to adding another 45,800 customer connections through currently signed agreements in eight states, most of which we expect to close this year in 2020. These new agreements reflect our commitment to provide water and wastewater solutions to communities across our footprint.

And with that, let me now turn it over to Susan.

Susan Hardwick {BIO 16618718 <GO>}

Thank you Walter. Good morning everyone. Let me first start on Slide 12 with a bit more detail on results for the quarter. First quarter 2020 consolidated GAAP earnings were $0.68 per share compared to $0.62 per share in 2019. In the first quarter of 2020 GAAP earnings were adjusted for depreciation expense that would have been recorded in the quarter related to the New York subsidiary assets had they not been classified for accounting purposes as assets held for sale. Also, 2019 GAAP earnings were adjusted for a reduction in the settlement liability related to the Freedom Industries chemical spill. Excluding these two adjustments, earnings per share as adjusted increased $0.06 per share or 9.8% driven primarily by growth in the regulated business. The Regulated Business segment results increased $0.08 per share or an increase of 13.6% compared to 2019 earnings. The market based business results increased $0.01 per share and the parent company decreased $0.03 per share compared to 2019, primarily reflecting higher interest expense to support growth in the business.

Moving on to Slide 13. Regulated Operations increased $0.08 per share in total. We saw a $0.14 per share increase from additional authorized revenue and surcharges to support infrastructure investment acquisition and organic growth. O&M expense increased $0.06 per share and depreciation increased $0.03 per share, both to support regulated acquisitions and growth. Also results reflect a $0.03 per share benefit primarily related to lower pension expense from a higher assumed return on assets used to set expense for 2020. The Market Based Businesses first quarter results increased compared to 2019 primarily by the Homeowner Services Group's organic growth and contract price increases. Also as Walter already mentioned, we expect joint Base San Antonio and the United States Military Academy at West Point New York to assume operations by the second quarter of 2020. And finally, the parent results decreased $0.03 per share, primarily reflecting higher interest expense to support growth in the regulated business.

Moving on to Slide 14. The Regulated Businesses received $53 million in annualized new revenue in 2020 and this includes $18 million from step increases and $35 million from infrastructure surcharges. We have also filed requests and are awaiting final orders on the four rate cases and three infrastructure surcharge proceedings for a total annualized revenue request of $224 million. The continued successful execution of our regulatory strategy is the key element of our ability to consistently deliver on these financial results.

Before I wrap up on Slide 15, let me add a few additional thoughts related to the expected implications of COVID-19. First, as it relates to demand for our services, American Water has a predominantly residential customer base. Residential revenues including bulk sales are about 69%, commercial is 21% mostly in the food and beverage sector, and industrial is only 4% of our total revenue.

Our very early indications are that our residential load is higher and our commercial and industrial loads are trending down as business close -- businesses close and certain other slowdowns occur. Disconnections and late fees have been suspended and disconnection notice has been stopped, as Walter mentioned earlier. We have also reconnected customers previously disconnected for non-payment and suspended reconnection fees. This is critical to our customers as they work through this difficult situation and we currently don't expect the impact of this temporary measure to be material.

It's too early to tell how customers' overall ability to pay will be impacted by COVID-19, so estimating uncollectible accounts exposure to this risk is not yet possible. As is evidenced by regulatory actions across the country to date, we expect issues like this will be addressed timely and certainly in future rate cases at the very least. We will work closely with regulators in our jurisdictions on how the costs of this pandemic will be treated for recovery purposes. As Walter mentioned, we invested capital $457 million in the first quarter of 2020 to better serve our customers. At this point, we believe our regularly scheduled capital projects will continue as planned, perhaps with some slowdowns that could be made up later in the year. So I don't believe we'll have any adjustments to our 2020 CapEx levels at this time. We continue to monitor our key suppliers and to date have had no major disruptions to our supply chain. Our key distributors are reporting an excess inventory and materials like pipes, valves, hydrants, couplings, and our chemical providers are meeting our needs and are reporting no shortages as of this point.

As we think about the impact of COVID-19 on our market-based businesses for military services, O&M operations currently continue as normal subject to each installations' individual requirement. As you know, our services are deemed essential so we continue to do what the Department of Defense has hired us to do, which is to deliver safe, clean, and reliable water to our military base partners. The Homeowner Services while development of new partner relationships may be delayed somewhat we believe we can maintain our customer base during periods of economic downturn and then homeowners really do see value in these products that protect them against large unexpected expenses.

And perhaps maybe one final comment before I talk about how we've addressed liquidity. I'd simply mention that our pension plans were funded at just over 80% as of year-end 2019 and though there has been much volatility in the equity markets, as you all know, I'd remind you that the pension obligation re-measurement will be done at the end of 2020.

Moving to Slide 16. As it relates to liquidity, obviously the COVID-19 pandemic has caused a great deal of uncertainty and volatility in the debt capital markets and like many others we experience some constraints in the commercial paper market and we have now seen a large -- a general loosening in that area.

We've been focused on liquidity since situation really accelerated. In addition to our existing $2.25 billion revolving credit facility that supports working capital needs and capital spending on March 20, we entered into a $750 million 364 day term loan at a very favorable rate of LIBOR plus 80 basis points and we have drawn on that term loan at $500 million and we're holding that amount in cash currently. As part of our planned financing for 2020, we executed on the issuance of $1 billion in long-term debt on April 14. The issue consisted of $500 million and 2.8% coupon senior note due 2030 and $500 million and 3.45% coupon senior notes due 2050. The proceeds from the long-term debt issuance were used primarily to repay outstanding commercial paper obligations and outstanding draws against our revolving credit facility. We're confident we have sufficient liquidity available for the foreseeable future with $2.8 billion available at the end of April.

Moving on to Slide 17. Let me summarize now. As Walter said, we expect our 2020 adjusted EPS to be in the range of $3.79 to $3.89 per share, which is consistent with the guidance range we last announced in February 2020 and which should have been identified as an adjusted guidance range at that time. Our 2020 GAAP earnings guidance range is $3.85 to $3.95 per share. The difference of $0.06 relates to the expected annual depreciation on the New York subsidiary assets which have been presented as assets held for sale. With the accounting treatment of assets held for sale, GAAP requires a depreciation cease on those assets and the only adjustment currently anticipated between our expected GAAP results in our expected adjusted earnings per share results is that $0.06 of depreciation expense. We have reflected $0.01 per share of that in the first quarter reconciliation of GAAP EPS to adjusted EPS.

As Walter also mentioned, we are affirming our long-term earnings compounded annual growth rate expectation on an earnings per share basis of a range of 7% to 10% while investing capital in the range of $8.8 billion to $9.4 billion over the next 5 years. The decades of capital investment need continue and drives our $20 billion to $22 billion of investment over the next 10 years. The fragmented water and wastewater landscape continues to provide what we see as a growing pipeline for acquisition. The capital-light market based businesses continue to increase customer experience and generate cash and simply put, our business model and resulting investment thesis is built on fundamentals and though all segments of the economy are being impacted by this crisis, we see our business is quite resilient and we have built it in a way to endure challenges like this.

Finally, moving on to Slide 18. While working through these very difficult and turbulent times, we continue to deliver strong consolidated results. Our total Company consolidated actual return on equity is 10.6% for the 12 months ended March 31, 2020. Regulatory execution along with strong results from our market-based businesses allows us to consistently deliver on our earnings commitment. We believe that delivering on results combined with our strong earnings growth and superior dividend growth expectations continue to provide excellent value for our investors. We continue to be a top leader in dividend growth with our announced increase in the dividend of 10%. We have grown our dividend at a compound annual growth rate of approximately 10% or more over the last five years and we expect to continue that growth well into the 7% to 10% range. Also, we continue to target a dividend payout ratio of 50% to 60% of earnings.

And with that, let me simply turn it back to Walter for few additional remarks.

Walter Lynch {BIO 6064780 <GO>}

Thanks, Susan. It's been a month since I've had the honor of leading this company as CEO. I want to take a moment to thank all the employees of American Water, their response to the current health crisis has been simply incredible. Not only are we providing essential services while keeping safety is our top priority, we've invested in our water and wastewater systems, welcomed new customers with closed acquisitions and work with State leaders, regulators and other key officials. We've also had a significant increase in customer satisfaction. We've achieved all this since the beginning of the year. Our Company will emerge strong from this COVID-19 pandemic. How we work together throughout this crisis will have a lasting positive impact on our culture of trust and teamwork.

I personally can't wait to once again get out to our business, to our plants, to our operating centers, to our call centers and say thanks to our employees, they are simply the best.

And with that, we're happy to take your questions.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions). Our first question today will come from Durgesh Chopra with Evercore ISI. Please go ahead.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning team. Thank you for taking my question.

A - Walter Lynch {BIO 6064780 <GO>}

Good morning.

A - Ed Vallejo {BIO 20515524 <GO>}

Hi, Durgesh.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey Walter and Susan. Maybe appreciate all the color. Just any quantifiable trends, I know it's early, on the regulated side in terms of, you mentioned residential demand being higher and commercial, industrial perhaps slower but any quantifiable trends on the -- into April in your regulated subsidiaries. And then also, are you seeing any non-payments or no payments in your market-based businesses. I know it's early on, but any color you could provide I appreciate it.

A - Walter Lynch {BIO 6064780 <GO>}

Okay, Durgesh thanks, Susan, you want to take that and then I'll jump in at the end.

A - Susan Hardwick {BIO 16618718 <GO>}

Sure, let me make just a few comments Durgesh. And again I would reiterate it is early. And as we think about across all of our jurisdictions, the various States implemented restrictions and stay-at-home orders at different times, so obviously depending on when that occurred in each of our jurisdictions that's going to impact, when we really started to see a shift in demand expectations. I would again reiterate what I said in our prepared remarks, roughly 70% of our load is residential and as you can imagine, obviously folks are at home, so we are seeing in our, in our early data that residential sales are up and again I hesitate to quantify it because it's still so early. In some cases, we may have six weeks' worth of demand data and other cases we may only have 3 or 4 weeks, again dependent on when those measures were put in place and in some cases we have real-time meters, some cases we don't, so we have to wait until we have actual building data. But we certainly are seeing residential usage -- usage up.

On the commercial side, again, it depends on the jurisdiction and it depends on the mix of customers in a particular state but as you can imagine commercial is trending down because of business closures, restaurants closing, et cetera. And on the industrial side, while in a particular state it could be a material change. And I'll give an example, in Kentucky, we've got a large plant there, an auto manufacturer, so in the state of Kentucky we're seeing a pretty substantial decline in industrial sales because of the concentration there, but overall, our industrial sales makeup is only about 4% of our total.

So again as you sort of roll all that together, residential is up, the other two are down, our current thinking is that they -- they may tend to offset each other. But I think it also depends on how long this goes, it depends on sort of a variety of factors in each of the jurisdictions. So, again, I'm not getting directly to your quantify it, but hopefully a bit more color there is helpful.

On the collection side again, I'd say it's too early to really see much on the regulated side and we certainly haven't seen anything on the market based side either that gives us immediate concern about collection. On the market based side in particular, I don't think we expect much in the way of difficulties there. Again, we think customers appreciate and are willing to sort of stay with these programs because it helps them avoid unexpected future expenditure. So, we're quite confident we'll be able to retain customers and with that goes, the ability to collect on the fees under those contracts.

A - Walter Lynch {BIO 6064780 <GO>}

Yeah. And I think the key to the usage again back to what Susan was talking about is, when do the states get back to normal when do they start opening up a lot of the commercial establishments in Industrial and obviously we're tracking that very closely as we work with the Governor's offices and our plans in working with them.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it, that's super helpful guys. And then maybe just can you update us on the timing of the New York American Water sale. Is that still expected to close. I believe it was late this year, is that still on track.

A - Walter Lynch {BIO 6064780 <GO>}

Yeah, we're still moving forward with the sale, there's no delay in the regulatory process and we're working very well with Liberty and we expect to closing that late this year or early in 2021 Durgesh.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. And then just final one from me, apologize. In terms of just some of your peers have talked about O&M savings Walter and Susan just folks staying home, less mileage expense, less expenses in general, travel, meals, et cetera, are you seeing that and is it sort of, what was the experience. I guess maybe, it's still early to tell, but any color into what -- what you might have seen versus original plan year to date in terms of those expense savings.

A - Walter Lynch {BIO 6064780 <GO>}

Let me start and then I'll hand it off to Susan. Durgesh, as you know, in my prepared remarks and over the years we focus very closely on O&M expenses and so that's part of our culture. We're going to continue to do that, we're going to continue to drive O&M expenses, down to that. When we invest, we're asking our customers to pay for that investment and not the O&M costs. So again, it's part of our culture, we just -- it's embedded, everybody understands it and that's again the continued focus that we're going to have in this business, just -- not just during the pandemic, as you know. So I'll ask Susan for additional comments.

A - Susan Hardwick {BIO 16618718 <GO>}

Yeah, I think, Walter you're right on target. The only thing I would add maybe just as specific example. And you mentioned travel, it is one obviously we've implemented, no travel across all of our jurisdictions. But what you might not be thinking about is added PPE that we've added for all of our employees including office employees. So there's added expense there on what we may have saved in other areas. So the bigger picture is, we are still on target for our earnings expectations for the year and I think our ability to navigate all the variables and the result is our expectations remain the same. I think that gives you pretty good indication of how we're managing.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Super guys. Thank you and Walter your first quarter as CEO congrats on a very solid quarter.

A - Walter Lynch {BIO 6064780 <GO>}

Thank you, Durgesh. I appreciate it.

Operator

Now our next question will come from Richard Verdi with Coker & Palmer. Please go ahead.

Q - Richard Verdi {BIO 15139674 <GO>}

Hi, good morning everyone. Thank you for taking my call and Walter, I just wanted to say congrats on your first call as CEO of the Company, I think it was great so far.

A - Walter Lynch {BIO 6064780 <GO>}

Thanks Rich.

Q - Richard Verdi {BIO 15139674 <GO>}

Sure. My pleasure. I just wanted to start very quickly with the military operation. Typically turnaround on new contracts can take 12 to 18 months and it's the same with your peers obviously and so it just seems kind of quick of a turnaround that we're going to start to see work being done here in -- here in the second quarter of 2020 and I was just wondering if you could talk a little bit about what made that turnaround so quick and when we could start to maybe see positive impact on the financials from such turnaround.

A - Walter Lynch {BIO 6064780 <GO>}

Yeah. On our two new bases, we've been in transition services since we got the award and we work very well at both installations, Joint Base San Antonio and West Point showing the value to the communities and we're going to be starting full operations as I said in my prepared remarks, in the second quarter. So I think it's the trust and confidence that they have in our Military Services Group to take over the water and wastewater systems and do it in a professional and amazing way as our group does with our Military Services Group. So again, we're really proud to have those two new installations, particularly West Point, one of the most important military installations in the country. I'm a graduate of West Point, I'd like to say that but, no, we're really proud of our Military Services Group, they've developed a tremendous reputation and brand with the government, I think it's the confidence that they have in our Group that moved those forward as quickly as we have.

Q - Richard Verdi {BIO 15139674 <GO>}

Okay, thank you for that Walter. And then kind of followup to that, what sort of indication is the Company received on potential delays in new awards and new bases being awarded, because of the COVID-19 crisis, so is there any -- what's kind of going on there.

A - Walter Lynch {BIO 6064780 <GO>}

Yeah. So we're in five active solicitations right now and we expect still this year to hear on three of those, so we're not seeing any measurable delay on behalf of the government in moving those forward.

Q - Richard Verdi {BIO 15139674 <GO>}

Okay, perfect. Thank you. And then for the municipal acquisition front, do you think that COVID could cause, I mean what's the feeling internally that where COVID-19 causes municipalities to somewhat become cash-strapped and maybe accelerate the sale of the water system to American Water.

A - Walter Lynch {BIO 6064780 <GO>}

Well, we believe, looking at the impact that COVID-19 crisis is going to have on communities that they're going to be a lot of municipalities that are facing financial challenges. And so when you look at the efforts that we've put in already over the years of building our pipeline and again, our pipeline is 650,000 customer connections, we've worked on fair market value legislation, we've worked on Water Quality Accountability legislation and when you really add this COVID-19 crisis, and we think it will have an impact on the number of communities that we're having discussions with, so -- we're -- being able to show what we can do in providing solutions for them. We do think it's going to have an impact on those discussions, absolutely.

Q - Richard Verdi {BIO 15139674 <GO>}

Okay, great. Thank you. And then just a -- I know I am dragging on -- just the last question here. Thank you for the time. When you look at the guidance for the year of 3.79 to 3.89 and you look into the model, and you also think back to the Analyst Day of how the Company now intends to issue equity at some point over the next five years. Debt to capital is targeted to come down to 59% to 60% range over time. And then we have a CapEx plan and then there's also COVID. In -- at least in my model when you start to bring down diluted earnings per share below that 379 figure into a low 370s, the flowthrough impact of that is that your cash -- your operating cash drops and you either need to make up for that by issuing debt, which will increase your debt to total capital before you issue more equity, which could possibly dilute the EPS growth rate or you peel back on CapEx and no one knows, you guys are doing a great job obviously -- no one knows right -- to go on for a long time it could be really unfavorable. So let's just assume a Doomsday scenario. What would be the -- where would the Company look to try to remedy the situation, but also try to keep its long-term growth guidance in range, does the Company say, okay, we're going to let, our debt ratios may be kind of lift, at risk of further credit downgrades, we are going to -- do we issue more equity, do we peel back CapEx. I mean, I'm sure you guys have kind of [ph]implied scenarios internally there, what's kind of Doomsday scenario. What would be a strategy if that occur.

A - Walter Lynch {BIO 6064780 <GO>}

Okay. I think, Susan, you want to take that one.

A - Susan Hardwick {BIO 16618718 <GO>}

Yeah, Rich. There is a lot in that question obviously, and I'll start with just simply saying that where we are today, we are confident in our ability to hit all of the various targets we've laid out, I think we said that sort of throughout our remarks. We -- like I'm sure everyone has done a variety of scenarios and sort of worst case, best case types of analyzes and that's just good financial planning. I would say to you that as you outline them in all of your remarks, we would have many levers to pull and I'm probably not going to comment beyond that. I would just say the strength of the balance sheet and the strength of our credit, the diversity of our operations, there's a whole variety of things about our business model that are set up in a way that makes it possible for us to navigate through situations like this. I made the comment in my remarks that again we're built on fundamentals and we believe this is a very resilient business, and I believe that to be absolutely true. So to the extent we've got to look at different approaches to manage whatever crisis come along, I'm confident in our ability to do so.

Q - Richard Verdi {BIO 15139674 <GO>}

Okay, that's great color. Thank you for that Susan. And I just actually have one more question. I'll wrap it up with this. Can you guys just refresh my memory again please with this 3.79 to 3.89 guidance assuming that was created around on magic number of an expectation of 3.84 for the end of the year at the midpoint of the guidance. What must happen for from that 3.84 for actually 3.79 to be reported what would need to -- what we need to have that low end of the guidance you reported?

A - Walter Lynch {BIO 6064780 <GO>}

Susan, you want to take that. I mean, mostly it's weather impact as you know.

A - Susan Hardwick {BIO 16618718 <GO>}

Yeah.

Q - Richard Verdi {BIO 15139674 <GO>}

Okay.

A - Susan Hardwick {BIO 16618718 <GO>}

Yeah, that's all I would say, yeah. I just think just variables like that, that are beyond our control and that's why we give a range to be able to account for things like that. I think weather would be the largest potential impact.

Q - Richard Verdi {BIO 15139674 <GO>}

Okay, great. Okay, great. I appreciate the time guys. Thank you.

A - Walter Lynch {BIO 6064780 <GO>}

Yeah. Thanks, Rich.

A - Susan Hardwick {BIO 16618718 <GO>}

Thanks, Rich.

Operator

Our next question will come from Jonathan Reeder with Wells Fargo. Please go ahead.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Hey, good morning, Walter and Susan, hope you are having a good day.

A - Walter Lynch {BIO 6064780 <GO>}

Good morning.

Q - Jonathan Reeder {BIO 18909775 <GO>}

It was nice for Susan to step aside right when a pandemic was coming down the pike (inaudible), right?

A - Walter Lynch {BIO 6064780 <GO>}

Timing is everything, isn't it Jonathan?

Q - Jonathan Reeder {BIO 18909775 <GO>}

It is, it is. I know you expect constructive treatment, but if any of your largest States like PA or New Jersey, Missouri Illinois taken concrete action with respect to recovery of incremental COVID-19 cost?

A - Walter Lynch {BIO 6064780 <GO>}

Susan you want to?

A - Susan Hardwick {BIO 16618718 <GO>}

Yeah. And I'm going to get to sort of an analysis here we've done, we've actually obviously been active with regulators across all of the jurisdictions, monitoring their actions and then we've certainly developed our own strategy on how we would approach, but we know for certain that California, Maryland, Virginia have addressed, they've already issued orders on cost deferrals. We have pending proceedings in Illinois and Iowa to do similarly, and we have discussions ongoing in every state but Hawaii which is easier and probably say the ones that we don't have. So active discussions or actions already taken across our jurisdictions.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. That's great. And then Walter can you talk about the calculus on year-end as well as the feedback in the states where you have major rate requests pending. I think your plan on filing another major rate case yet this year and I forgot is those Missouri or Illinois, but any apprehension with being in for rates. Many customers are facing these economic hardships, you've seen some companies kind of defer filing request or extend out the timeline, stuff like that, but it sounds like for you guys, it's kind of full steam ahead in some regards.

A - Walter Lynch {BIO 6064780 <GO>}

Yeah, Jonathan, let me say first that we're very sensitive to the situation that our customers are facing right now. We've been investing, as you know, significant amounts in our systems, and this is really getting a recovery in that investment. And if you look to Pennsylvania, I know we did file last week, but those rates will not be effective for 8 to 10 months, so we took that into consideration as we made that decision. New Jersey was already filed in December so we continue to work with the commission on that and in Virginia and California, the same, but we did look at that very closely, but again because of the timing, we felt like filing now for an outcome that's in 2021 is a reasonable decision on our behalf.

A - Susan Hardwick {BIO 16618718 <GO>}

I just add to that -- that we certainly are working closely with regulators around this very question and we have not received direction or signals really from regulators that we should not proceed sort of as usual. So, that's a different answer than customer considerations, it's really just also taken into account our regulators are expecting and we've not really been pushed to delay the normal process so far.

Q - Jonathan Reeder {BIO 18909775 <GO>}

That's helpful information and then the last question really just on the military front. Do you expect any new bases will be awarded through the RFP process, later this year at either AWK or one of your competitors.

A - Walter Lynch {BIO 6064780 <GO>}

Yes, that's right Jonathan, of the five that we're pursuing all indications are that they will award three this year.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Alright. Well, good luck on getting those and looking forward to the update and stay safe and strong through the pandemic. I appreciate the time.

A - Walter Lynch {BIO 6064780 <GO>}

Well, I appreciate that, Jonathan. Thank you.

A - Susan Hardwick {BIO 16618718 <GO>}

Thanks Jonathan.

Operator

This will conclude today's question and answer session. I would like to turn the conference back over to Walter Lynch for any closing remarks.

A - Walter Lynch {BIO 6064780 <GO>}

Well, thank you all for participating in our call today. Please note that we value you as investor owners and as the financial analysts who research our Company for the benefit of your clients and their futures. We always want to be open and transparent in all our discussions and dealings with you, so you have the confidence in your decisions around our Company and investments in our stock. If we've not been able to address your question or if you have additional questions, please call Ed and Ralph and they'll be happy to help. Stay safe and thanks again for listening. Have a nice day everybody.

Operator

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