Q2 2022 Earnings Call

Company Participants

- Aaron Musgrave, Senior Director of Investor Relations
- Cheryl Norton, Executive Vice President and Chief Operating Officer
- John Griffith, Executive Vice President and Chief Financial Officer
- Susan Hardwick, President, Chief Executive Officer

Other Participants

- Angie Storozynski, Seaport Global
- Gregg Orrill, UBS
- Insoo Kim, Goldman Sachs
- Michael Gaugler, Janney Montgomery Scott
- Richard Sunderland, JPMorgan
- Ryan Greenwald, Bank of America

Presentation

Operator

Good morning, and welcome to American Water's Second Quarter 2022 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. The audio webcast archive will be available for one year on American Water's Investor Relations website.

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

Aaron Musgrave {BIO 22474483 <GO>}

Thank you, Jordan. 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. Let me first go over some Safe Harbor language. Today, we will be making forward-looking statements that represent our expectations regarding our future performance or other future events. These statements are predictions based on 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 June 30th Form 10-Q each filed yesterday with the SEC.

The reconciliation for the calculation of the O&M efficiency ratio, a non-GAAP financial measure can be found in our earnings release and in the appendix of the accompanying slide deck which has been posted to the Investor Relations page on our website. All statements during this presentation related to earnings and earnings per share refer to diluted earnings and earnings per share. Susan Hardwick, our President and CEO, will discuss second quarter and year-to-date highlights and our focus on managing costs and today's inflationary environment. John Griffith, our Executive Vice President and CFO, will cover our financial results in more detail review our firmed 2022 earnings guidance and long-term targets. And we'll close with an update on recent acquisition activity. Cheryl Norton, our Executive Vice President and COO, will then review the progress of our investments year-to-date in the regulated businesses. We will share some key details and milestones for several of our active general rate cases and we'll conclude with another of our ESG impact stories. We will then close by answering your questions.

With that, I'll turn the call over to American Water's President and CEO, Susan Hardwick.

Susan Hardwick {BIO 16618718 <GO>}

Thanks, Aaron, and good morning everyone. Let me also say how happy we are to have John Griffith with us as our CFO and you'll hear more from John shortly. Let's turn to slide 5 and I'll start by covering some highlights of the first half of the year. In the first six months of 2022, earnings were $2.07 per share compared to $1.87 per share in the same period of 2021. Results for the regulated business drove the majority of the growth, accounting for $0.16 of the $0.20 increase, while MSG and other results were up $0.04 as compared to the same period in 2021.

The regulated growth was in-line with our expectations as we knew the first half of the year would be strong due to revenue increases from several general rate case proceedings completed in 2021 and early 2022 and from infrastructure mechanism filings. These higher revenues were partially offset by higher operating costs which I'll talk more about shortly.

Our regulated business invested over $800 million in capital projects and acquisitions for the quarter and a quarter $1 billion year-to-date reflecting great work by our teams responsible for executing these investments.

As you will recall, the total capital investment plan for 2022, included the $235 million acquisition of the city of York's wastewater system that we were excited to close in May. Coupled with our strong first quarter results, our capital investments are off to a good start for the year and on pace to meet our $2.5 billion goal for the year. We continue to stay focused on the planned, and as you saw yesterday, we have now for the third time affirmed our 2022 earnings guidance. And John will cover 2022 results and guidance in more detail a little later in the call.

Before I move on, let me comment again about how excited we are to welcome the customers and employees of York's wastewater system to the American Water family. As we've said, this is the largest acquisition in Pennsylvania American Water history. And it's a great example of how municipal acquisitions are executed. The importance of understanding the communities objectives can't be underestimated and we jointly created an opportunity that benefits all stakeholders.

And as we think about the competitive landscape for water and wastewater acquisitions, we continue to focus on growing in states where we can leverage our competitive advantage. As we've said many times before, we target acquisitions in the range of 5 to 50,000 customers where we have constructive regulatory environments and existing footprint and critical mass. This critical mass is important in our efforts to promote customer affordability and cost efficiencies.

Also as we grow in each state, we will have a greater voice to help solve industry challenges through legislative and regulatory policies. So, while we won't be awarded every opportunity we pursue, we know that there are plenty of communities in need and we believe our 135 plus year history of delivering safe, clean, reliable, and affordable water and wastewater services will enable us to continue to achieve a high success rate in our pursuits.

The final highlight I'll cover here is that the military services group had a another great win at the end of the second quarter and I'll let Cheryl, give you the details but the award of our first Navy contract at Mayport adds to the 17 other military installations that we're very proud to serve.

Turning to slide 6. I'll take a few minutes here to provide a review of the macroeconomic environment and how we're managing the impacts to the company. Our focus on operating efficiency is not new. As you know in the chart at the bottom of slide 6, you can see the result of our disciplined focus on managing costs as we grow the business. This focus has positioned us well to have managed through much of the pressure so far on supply and even cost increases brought about with the effects of the pandemic.

Now as we are in what may be an extended period of inflationary pressure, we continue to exercise our disciplined approach to cost management by leveraging our scale. And through mid-year, while we are experiencing cost increases in certain supplies and energy, the impacts to date have been fairly modest. In terms of our most significant costs, labor is our biggest operating expense by far. We work regularly with our union leadership to secure contract renewals and so far, we have been able to achieve very fair outcomes. In our non-union workforce, we're focused on filling key roles and maintaining our practice of competitive compensation. Chemical costs and purchase power are usually the next biggest operating cost, while our supply chain strategies and purchasing power have helped mitigate chemical cost increases, especially as compared to our peers. We do expect higher O&M costs this year due to higher chemical prices.

For many years now the supply chain team has been successful in partnering with operations to secure, reliable, cost-effective power and fleet fuel contracts across our footprint. And because of these efforts, we expect only modest power and fuel cost increases in 2022. Overall, we estimate an impact of about $0.06 to $0.08 per share of these types of cost increases year-to-date which we've been able to generally offset through other results.

Later, John will talk more about the possible impacts on the year. But as I said, we are confident in our ability to hit our earnings expectations for the year. And perhaps one final comment before I talk about how we're pursuing regulatory solutions for this rising production cost environment. Certainly, a lot has been written over the last few weeks about pension accounting and expense levels going forward. I'd simply mention that our pension plans were funded at just under 90% as of year-end 2021 with a roughly 50-50 target allocation for equity and fixed income.

There has been much volatility in the equity markets through mid-year, I'd remind you that the pension obligation re-measurement will be done at the end of 2022 and that will drive the determination of our 2023 expense. The accounting method we use includes using the fair market value of plan assets at year-end to establish the expected return on plan assets and we also use the quarter approach for amortizing gains and losses. These methods were selected many years ago and have resulted in moderate, variability and pension expense both favorable and unfavorable over the years, which we've always managed as part of our overall cost management approach.

This includes regulatory solutions, such as the pension trackers, we have in place in Missouri in California, and updates to pension expense in active general rate cases. As an example of how we are addressing these costs in current cases in the Illinois case currently on file we requested and received approval last week to update the requested revenue requirement for increased costs, including an estimated increase in pension costs. That request will be considered in this case.

And that goes to my final point on this slide around regulatory solutions. Our teams throughout the company know that regulatory execution is vital to meeting our earnings objectives and our financial plan generally. The regulatory solutions we are pursuing, such as cost deferrals and expense recovery mechanisms in all of the current active cases are closely aligned with the interest of regulators and customers in managing affordability and limiting variability of customer bills. There is no doubt a challenging environment, we all find ourselves in, but we remain confident in our ability to manage through it, using our disciplined approach to cost management and our ability to execute effectively in the regulatory environment.

And with that, let me turn it over to John to cover more detail on our operating results and financing plans. John.

John Griffith {BIO 22381860 <GO>}

Thanks, Susan, and good morning everyone. I recall Susan saying on the first quarter earnings call that it had been a privilege to serve as CFO, but she was thrilled it was her last one in the role. So before I get started with the results, let me just say that I'm thrilled to take the baton from Susan as CFO at American Water and join this great team.

So with that, turning to slide 8. Let me provide a few more details on second quarter results. Regulatory results in total increased $0.02 per share compared to the prior year. We saw a $0.16 per share increase related to higher revenues from new rates, acquisitions and organic growth. As a reminder, prior year results reflect an estimated $0.03 per share of favorable weather in the second quarter. O&M expense increased by $0.06 per share, which reflects some of the effects of inflation on chemical, power and fuel costs.

Depreciation expense increased $0.03 per share and support of growth and the regulated business. The market based business and other results increased $0.04 per share in the second quarter of 2022 as compared to the second quarter of 2021. These results in 2022 include interest income on the seller note and earnings from revenue share agreements from the 2021 sale of HomeOwner Services of $0.06 per share while 2021 results included $0.08 per share of operating earnings from HOS. Results for the other segment also include interest expense, our long-term debt financing in both periods, which has increased year-over-year.

Related to HOS, I also wanted to note that we recorded the final working capital true-up entries for HOS in the first half of the year amounting to $0.08 of earnings. As we previously disclosed, we recorded a $0.02 loss on the sale of New York American Water in the first quarter. As is often the case with an organization of our size, it is common to have in any given year a number of pluses and minuses that generally offset. The net earnings contribution of $0.06 per share from these final two sale related entries has helped to mitigate the impact of the inflationary pressures we have seen so far.

Moving to slide 9. Consolidated results increased $0.20 per share for the year-to-date period compared to the same period last year, driven by many of the same factors as in the second quarter. Results from the regulated business increased $0.16 per share for the year-to-date period. We saw a $0.34 per share increase on higher revenues, somewhat offset by increases in O&M and other operating expenses of $0.08 per share and depreciation of $0.06 per share. The market based business and other results increased $0.04 per share for the year-to-date period compared to the same period last year with generally the same drivers as mentioned for the second quarter results. Overall, we're pleased with our financial performance over the first half of the year. The first half performance sets us up well to deliver on our full year financial plan.

Speaking of our 2022 plan, let's now turn to slide 10. After a solid start to the year, as Susan mentioned, we are affirming our 2022 earnings guidance range of $4.39 per share to $4.49 per share. We expect strong revenue growth to continue in the second half of the year as we continue to earn returns on our infrastructure investments from prior years, additional growth from acquisitions.

Second half results when compared to the prior year will be tempered by the sale of our New York American Water operations earlier this year which historically had its biggest earnings contribution in the third quarter of each year. And as we mentioned, while we are working diligently to limit the impacts to the business of rising costs, we expect to see continued pressures in the second half of the year primarily related to chemicals and interest expense.

As we've mentioned previously, we will not see any material earnings in 2022 from the redeployment of sale proceeds for HOS in New York. But the expected earnings from interest on the seller note and revenue from the utility revenue share agreements will nearly offset the loss of the prior annual earnings contribution from HOS. As our team has previously shared, we will continue to ramp-up our capital investments over the next few years as a part of the accelerated investment plan rolled out last November. The earnings from that ramp-up of investment will follow.

Finally, I'll just reiterate that we are confident in the long-term financial targets we have in place, including 79% EPS growth and 8% to 9% rate base growth. We acknowledge the current macroeconomic headwinds and our factoring those in as we progress through our annual budgeting and planning process this summer. As expected, we will provide an updated outlook later this year for 2023 and the longer term.

Turning to slide 11 and the acquisition piece of our growth triangle, we were pleased to announce in May, our closing of the purchase, the city of New York's wastewater system for $235 million where we are now serving approximately 45,000 customer connections. This agreement was executed under Pennsylvania's fair market value legislation, which is a framework that exists now across 12 of the stage in which we operate. Turning to a review of the nearly 30,000 customer connections under agreement as of June 30, Egg Harbor City is expected to close in the second half of 2022. Egg Harbor City is the first transaction under the New Jersey Water Infrastructure Protection Act. Importantly, we believe other municipalities will benefit by legislation in the future as it allows communities with significant operating challenges to avoid a public referendum and swiftly partner with a provider like us to address their issues.

And just yesterday, West Virginia American Water announced a signed agreement with Jefferson utilities to purchase the various water and wastewater system assets of Jefferson Utilities for $30 million. The combined systems serve almost 4,000 customer connections in West Virginia and we expect to close this transaction by the end of this year. The acquisition pipeline is still quite strong and approximately 1.3 million customer connections. The pipeline represents a multitude of potential acquisitions across many states in our footprint, including several additional opportunities that have emerged since our last call, as well as the removal of two large deals New York now closed and another opportunity in Pennsylvania.

Let's move to slide 12 and a reminder that we have a strong balance sheet and credit profile. I believe that our plan, but the level of investment and how we intend to finance it is supportive of our current credit ratings. This includes the $1.1 billion of equity financing we have previously discussed as we focus on achieving our long-term debt to capital target of 60%. We will continue to work hard and maintaining our industry-leading credit ratings for the benefit ultimately of our customers.

Importantly, these strong issuer ratings are also applied to our senior unsecured debt offerings, enabling us to achieve strong financing outcomes like our recent debt offering in May, that summarized in the appendix of today's slides. The other thing I'll point out on this slide is our debt maturity profile in the bottom left of the slide. In a rising interest rate environment, it is important that the company has taken a laddered approach to long-term debt financings over the years in order to minimize interest rate risk. I certainly agree with that strategy and expect to continue that wise approach.

With that, I'll turn it over to Cheryl to cover our capital investments and Military Services Group results in more detail. Cheryl.

Cheryl Norton {BIO 17107572 <GO>}

Thanks, John. And good morning everyone. While I usually start by reviewing the regulated segment operating results, I want to start today on Slide 14 by covering the announcement coming from our Military Services Group just a few weeks ago. I'm so proud of MSG's latest award our first ever Navy contract. This contract continues the team streak of utility privatization wins at military installations in recent years. With the addition of the wastewater contract with Naval Station at Mayport, we are currently serving 18 installations with between 30 and 50 years remaining on these contracts.

We also have two other bids outstanding, one of which is expected to be awarded in 2023. And as you can see, we have a potential of about 70 additional opportunities in the years ahead. MSG's business model centers around adding new military installations to our portfolio, and then optimizing revenues through new infrastructure construction projects on the basis we serve. A military installations mission can change or expand or new technologies or system improvements may be identified that improve efficiency or sustainability. We work with our military partners to identify and lead these needed infrastructure projects. Again, we're extremely proud to provide vital services for the military personnel, their families and the civilians that support these missions.

As we turn to slide 15, let's cover our regulatory activity in our states. Shown here is our summary of completed rate cases in 2022 and key facts for each of the rate case filing so far this year. In the appendix, we also share some details of changes in our infrastructure charges year-to-date. These key efforts reflect Susan's comment on our team's ability to execute our regulatory strategies. As you can see on the slide, our New Jersey case is the furthest along with constructive discussions happening over the last few months. We're really pleased to report that on July 25th, the parties to the New Jersey base rate case filed a stipulation of settlement with the Office of Administrative Law resolving all pending issues in the proceeding. The parties are waiting for an initial decision from the Administrative Law Judge and once of this issued, the matter will be returned to the Board of Public Utilities for a final determination.

And Illinois, it's been about six years since our last general rate case and progress has been steady since our February filing. Evidence hearings will start next month and we expect an order in the case by January. Importantly, Illinois utilizes a forward test year for rate-making purposes. We just helpful during this period of rising cost faced by the business. In Pennsylvania, we filed a general rate case in late April and are seeking recovery of over $1 billion of investments. The case is proceeding as planned including evidentiary hearings that will occur in September and with an order in this case, also expected early next year.

Pennsylvania also uses a forward test year for rate-making purposes. Our cases in California and Missouri were just filed earlier this month and are progressing as expected so far. And finally, as you know, we have another case active in Virginia, from 2021 that we expect to bring to conclusion in 2023. The common thread and all these cases is the focus on recovery of extensive infrastructure investments totaling over $4 billion and in some cases, the roll-in of acquisitions.

As we continue to ramp up capital investments over the next few years, it will take time to see recovery of these investments in rates. We expect to continue to file general rate cases every two to three years in our larger states with the ability to go in sooner if we see lingering, inflationary impacts or excessive lag from investment, limiting our ability to earn our allowed return. Clearly, regulatory execution is critical to the success of our plans, and we are very confident in our team's that lead our regulatory efforts.

As always, we remain very focused on customer affordability. Our emphasis on cost and capital efficiencies, coupled with our customer growth efforts have continued to deliver very affordable bills as a percentage of household income for most of our customers. We also continue to evolve our strategies around rate design and customer assistance programs to help our customers who are challenged with affordability.

On the legislative front, there were three additional pieces of legislation passed since our first quarter call, one in Illinois, one in Tennessee, and one in Missouri. The Illinois bill is an important one to help address the affordability of our bills with certain customers. The Tennessee bill requires all utilities in the state to implement a cyber security plan and we are well positioned to comply. And lastly, the Missouri bill requires a utility to defer any difference and what was actually paid in state or local property taxes compared to what was used to set the revenue requirement. We believe our legislative efforts benefit our customers and give communities more options as they seek solutions to water and wastewater challenges.

On slide 16, we summarize rate filings completed so far in 2022 as well as total annualized revenue increases being requested and currently active cases. The total of $598 million in pending cases, which includes three infrastructure surcharge proceedings reflects the requested amounts in the various cases. Generally speaking, we would expect the final revenue increase granted in each case to go into effect in 2023 or 2024 In the case of California.

Turning to slide 17. Our regulated business leaders and their teams did a great job again in the second quarter executing on our increased capital plan. It's a significant effort to safely and efficiently complete the several hundred projects that improved our systems and drove capital investment higher by nearly $300 million in the first half of the year compared to the same period last year. This result keeps us on pace to hit our goal of approximately $2 billion of regulated capital investment spending in 2022, the foundation of our earnings growth triangle.

Moving to slide 18. I want to just highlight that our continued execution on capital investments, both infrastructure projects and acquisitions are succeeding and growing our regulated rate base. This of course drives earnings growth. While we remain focused on operating our system safely and efficiently to the benefit of our customers. Like we have been doing the last several quarters, I'll close on slide 19 with another story of ESG impact on American Water. This one comes from a collaborative project between New Jersey American Water and NJR Clean Energy Ventures.

The partnership is constructing the largest floating solar array in the US on a late next to our Canoo breadth water treatment plants. Upon completion later this year, this 8.9 megawatt installation will provide 95% of the plants annual power needs and will help reduce our annual greenhouse gas emissions. This is another example of a project that creates a financial, operational and ESG win for us and our customers.

So with that, I'll turn it back over to our operator to begin Q&A and take any questions you may have.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Richard Sunderland with JPMorgan. Please go ahead.

Q - Richard Sunderland {BIO 20365913 <GO>}

Hi, good morning and thank you for the time today. Maybe starting with inflation and your guidance reaffirmation. Could you frame a little bit of the QH inflation risk relative to the 6% to 8% impact year-to-date. I guess, in particular, is there any reason the headwind could be ratable and then, given you had the highest benefit in one each that offset. How do you think about offsets over the balance of the year?

A - Susan Hardwick {BIO 16618718 <GO>}

Good morning, Rich. Yeah, let me make a couple of comments and certainly have John weigh in here. I think we made it hopefully pretty clear in our prepared remarks. First of all that we affirmed guidance for the year. So as we think about expectations for 2022, we're quite confident our ability to hit the targets we've established for 2022. We did indicate that we continue to see some pressure and headwinds around particularly chemical costs and energy costs. We also highlighted that we are working diligently in the regulatory environment to ensure on a go forward basis that we have those costs addressed and as Cheryl, pointed out a number of our cases do have forward looking test year, so we're hopeful that we can limit any exposure here really 2022.

The other comment that we made and you obviously rightly pointed out, the HOS gain that was recorded which again those sorts of transactions are not terribly uncommon when you have a transaction of the size we had last year when we sold HOS just final working capital true-ups and I would say they are final, we don't expect anymore activity related to that transaction. That was a benefit to the first half of the year and that certainly helped us offset some of those cost increases.

But I'd also say it's not uncommon for an organization of our size as John remarked to have pluses and minuses throughout the course of the year and our focus on cost management, our focus on how we operate, how we are focused on efficiency, we will continue to have the levers that we can pull to offset exposure that we may see in the second half of the year. So that's our plan. And again, I'll just say it again, we affirmed our guidance for 2022, we fully expect to hit those targets for the year.

Q - Richard Sunderland {BIO 20365913 <GO>}

Got it. I appreciate the color there. I guess just turning to this topic, but on a macro level with the commentary around CapEx, just curious what you're seeing on that front. Is there, your potential for even the dollar spend to go up, given inflationary factors or I guess on the other hand, less pipe replacement to occur under the current budgeted CapEx. Just curious how you thinking about that into the budget update.

A - Susan Hardwick {BIO 16618718 <GO>}

Yeah. And Cheryl can weigh in here too from an operating standpoint, but we don't see any change at all in our plans in terms of the amount of work we're doing. We may see some cost increases there on pipe. But I would tell you again our supply chain folks have done a tremendous job both managing the availability of supply and the cost increases we've experienced, they really have been fairly modest on those types of commodities. And again, we don't expect any change in our plans to invest. Cheryl, anything to add there.

A - Cheryl Norton {BIO 17107572 <GO>}

Yes. I would just say that we've always got hundreds of projects pretty much ready to go that we know, need to be done across our systems. And so, we have some flexibility and how quickly we move those projects forward, but at this point, we've been able to manage through any supply chain delays and any cost increases and still get the work that's been prioritized done and continue to to do that we think through the years coming so. No real concerns there, just being flexible and how we approach those projects.

Q - Richard Sunderland {BIO 20365913 <GO>}

Got it. That makes sense. And just a final (inaudible) you talked about potential impacts. are you able to quantify the potential headwind in 2023?

A - Cheryl Norton {BIO 17107572 <GO>}

No. Not at this time. Obviously, as we said in our prepared remarks, we do need to get to the end of the year. We'll do the re-measurement there and we'll see where we are. But again, our focus would be to use all of the tools at our disposal to manage those types of increases. I mentioned in my remarks around regulatory approaches. We've got trackers in two states already. So that will mitigate it there, and two of our largest states by the way. And we're continuing to focus on regulatory solutions and all the cases we have currently on file to address that specific cost. So, we're optimistic. We'll be able to manage through whatever increases we may or may not see there.

Q - Richard Sunderland {BIO 20365913 <GO>}

Understood. Thank you for the time today.

A - Cheryl Norton {BIO 17107572 <GO>}

Thanks, Rich.

Operator

Our next question comes from Insoo Kim with Goldman Sachs. Please go ahead.

Q - Insoo Kim {BIO 19660313 <GO>}

Hey, thank you. My first question going back to, I guess, thinking about the 2022 guidance a little bit given the year-to-date results. I think on slide 10, you said that second half of 2022 EPS will be lower compared to 2H 2021. If I take the last four quarters worth of EPS, it gets to kind of I guess the midpoint of where 2022 guidance would be, so then if the 2H 2022 is going to be lower, is that implying that at least in the range you're trending towards the bottom half of the range?

A - Susan Hardwick {BIO 16618718 <GO>}

I don't think you should assume that. What we tried to point out on slide 10 is simply the reality of our earnings profile, we're pointing out that in the prior year. You would have had results from New York. We just didn't want folks to miss that, as you think about what your expectations are for each of the remaining two quarters. And then obviously, you've talked about inflation here in our the headwinds we may experience. And again, our strategy is to try to offset those impacts. What we've continued to say as we've affirmed our guidance for 2022 and we're very confident in our ability to hit that.

Q - Insoo Kim {BIO 19660313 <GO>}

Okay. Got it. I should take that in addition to the other commentary on demand rates and inflation too. I guess (inaudible). Okay. Now, that makes a lot of sense. The second question. Last month the EPA put out new advisories for PFS another (inaudible) chemicals. I know it's a lot of this is more state-based, some of the states have mandated somehow their own recommendations and (inaudible), you guys have had your targets as well, just based on the new advisories any thoughts on your operations on the PFS and other chemical levels, whether that translates into CapEx opportunities or in other expenses. Thanks.

A - Susan Hardwick {BIO 16618718 <GO>}

Yeah. It's a good question, Insoo. Obviously, it's something that we're very focused on and I'll let Cheryl comment on how we see this latest news.

A - Cheryl Norton {BIO 17107572 <GO>}

Yeah. Thanks, Susan. What EPA put out recently were health advisories. And there is no regulatory requirement for us to test or to meet any certain levels with those health advisories. Those advisories were extremely low, in our opinion, below the detection limit of the methods to test for PFS compounds. And so we're anxiously waiting to see what EPA comes back out with as far as a real regulatory limit. But we have tested all across our footprint, we know where we stand. And we have already started looking at what capital projects would be necessary going forward, and any regulations in states other than where we're at today will mean future capital investments.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. That's good color. Thank you very much.

A - Cheryl Norton {BIO 17107572 <GO>}

Thanks, Insoo.

Operator

Our next question comes from Angie Storozynski with Seaport. Please go ahead.

Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you. Just one comment on 2022. I remember in the past used to say that weather can have about $0.07 positive or negative swings for the year. So I'm just wondering if this is still the case and I see that your clients of water conservation and at least parts of New Jersey and I'm just wondering if that could potentially cap this earnings benefit.

A - Susan Hardwick {BIO 16618718 <GO>}

Yeah. Good morning, Angie. I'll let Cheryl comment a minute about what specifically happening in New Jersey. We haven't really seen to date through June much of a weather impact. We're all I think across the country, sort of sweating this quarter. So we'll see what it does to results here in this third quarter. We probably moved away from that sort of quantification. I think what we've historically done there, so we'll just need to wait and see what impact does have on demand in this quarter and Cheryl, you want to talk specifically about what's going on in New Jersey?

A - Cheryl Norton {BIO 17107572 <GO>}

Yeah. We've got two areas in New Jersey where we've seen peak usage rise to the level that we feel it's important that we start to encourage or specifically ask our customers to conserve to water only on alternating days, put steps like that in place. So that we can kind of shave off those peaks and that we can serve our customers continuously without any kinds of dips in pressure or anything like that. So we have seen usage spiking and that's why you're seeing those conservation messages come through.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. Changing topics. And I know it's really new. But we see this proposed the minimum effective tax rate 15% at least overnight that it seems that it might pass. Could you tell us how you think it's going to impact your earnings projections. If anything else or cash flows.

A - Susan Hardwick {BIO 16618718 <GO>}

Yeah. Sure. It's a good question. And obviously we need to kind of dust off analysis that has been done around this topic, again and as you said, it's sort of back in the new. And I think as we've talked about this in the past, it really is probably an impact on cash flow primarily, ultimately any impacts to effective tax rates gets worked through the customer bills. So I would say it's probably cash flow. And I think we will again just need to look at our analysis that we did at the time. I don't recall it being terribly material, but we'll just need to dusted off and see if there is anything there to report.

Q - Angie Storozynski {BIO 15115714 <GO>}

And just my last question on municipal M&A. I appreciate all the comments. Susan you had in your prepared remarks, but is there any more if you can share about this one. I wouldn't say an word, because it's an exclusivity period for confer negotiations went to your competitor. I mean we have little to no insight into what terms you proposed versus Aqua Pennsylvania. But I mean is it as simple as the highest price wins or do you have some other competitive advantages that about the location of the service territory. What is it that you might not be winning these contracts despite such a big balance sheet. No contracts there.

A - Susan Hardwick {BIO 16618718 <GO>}

Well. Yeah. Sure. I'm obviously not going to comment on any details here. I would simply say it's never that simple. I think it's important to go back to the comments that John made in his prepared remarks that we've got a pipeline at 1.3, we just closed New York, we talked about the acquisition in West Virginia. We just announced yesterday, we have plenty to do in this space. There is plenty to do and we are doing a lot. So we take every opportunity seriously and we approach every one with the same rigor, the same metrics, the same approach to benefits that can be provided to communities. And we put our best foot forward and then we move on. And that's probably all I have to say about that. Again, we've got lots of great opportunities here.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. Thank you.

A - Susan Hardwick {BIO 16618718 <GO>}

Thanks, Angie.

Operator

Our next question comes from Michael Gaugler with Janney Montgomery Scott. Please go ahead.

Q - Michael Gaugler {BIO 7139923 <GO>}

Good morning, everyone.

A - Susan Hardwick {BIO 16618718 <GO>}

Morning.

Q - Michael Gaugler {BIO 7139923 <GO>}

On slide 15, Cheryl mentioned in Illinois, the low-income assistance plans now in place. Just wondering, do you have them in most or all of the states you operate in?

A - Cheryl Norton {BIO 17107572 <GO>}

Yes, Michael. We have low income assistance programs all across our footprint. But we're also looking at how we can expand those, or how we can make those more accessible to additional customers. We realize there just some customers out there that no matter how affordable our bills are there going to struggle to be able to do that. So we're also working at the federal level trying to get as much support for a federal assistance program, the light what program has been hugely popular and helpful for our customers across our footprint in the states where they've implemented that. So we're going to continue to try to work at the federal level to get more federal funding as well as some of those local or more utility based programs.

Q - Michael Gaugler {BIO 7139923 <GO>}

So just to be clear Illinois was the last one in terms of adopting this type of legislation in your system.

A - Susan Hardwick {BIO 16618718 <GO>}

Well, Michael, this is a separate piece of legislation. I wouldn't say that there is legislation in every state. We have our own program, our help to others program that all of our states participate in all across our footprint. So our customers have had some access to low-income assistance for years now.

Q - Michael Gaugler {BIO 7139923 <GO>}

Okay. That's all I had. Thank you.

A - Susan Hardwick {BIO 16618718 <GO>}

Thank you, Michael.

Operator

Our next question comes from Ryan Greenwald with Bank of America. Please go ahead.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Good morning, team. John, congratulations on your new role. Pleasure to connect.

A - John Griffith {BIO 22381860 <GO>}

Thanks very much, Ryan.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Absolutely. I appreciate the update. Just a follow-up brief on the pension comments. You guys had previously disclosed the 90% loss through mid-May. What was the pension asset performance through June the 30th?

A - Susan Hardwick {BIO 16618718 <GO>}

I don't know, Ryan. I mean I don't think it's something we have got at our fingertips. I don't know what you can divine from the Q on that. Yeah, we don't have anything out there, Ryan to answer that specifically.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Understood. Is it fair to extrapolate the 9 million pension expense from the PA rate case for the balance of the company, assuming PA like a 20% allocation.

A - Susan Hardwick {BIO 16618718 <GO>}

No.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Any color on the best way to kind of think about that.

A - Susan Hardwick {BIO 16618718 <GO>}

Well, I think that's a difficult approach. Those are estimated costs as of a set of analysis we did for the rate case. I think the answer really to the question is, you really just have to wait until we get to the end of the year and we see really what the impact is going to be going forward. And I would just reiterate what we said in our prepared remarks that, we are working diligently in many of these open cases to address these costs.

As Cheryl highlighted several of these jurisdictions have forward looking test years, and we have worked hard to either include these costs or estimates of these costs in those rate cases or we have proposals on the docket to be able to address go forward exposures. And to the extent we don't cover those cost timely enough in rate cases, we will continue to focus on ways to mitigate those impacts through other cost management efforts other things.

So I don't think you can really draw any broad conclusions based on what you've seen to date, either in terms of market performance or even in our own filings. I think you really just got to wait until we have more insight into expectations at the end of the year and then we'll certainly tell you how we think about it. But I'd also tell you again remind you that John commented in his remarks, we've affirmed our long-term guidance here. So as we think about this going forward, we're certainly confident in our ability to manage the cost, both from a just a straight cost management standpoint and regulatory solutions.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Understood. And then maybe just lastly, the Pennsylvania governors move earlier this month to reduce the corporate tax rate. Any initial thoughts on potential impact for you guys in PA there and how this could play into the dynamics.

A - Susan Hardwick {BIO 16618718 <GO>}

I don't really have anything to say about that at the moment. Again, we'd be considering those types of impacts in this current case. So nothing really to comment on there.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Fair enough. I will leave it there. Thank you for all the time.

A - Susan Hardwick {BIO 16618718 <GO>}

Thanks, Ryan.

Operator

Our next question comes from Gregg Orrill with UBS. Please go ahead.

Q - Gregg Orrill {BIO 21090160 <GO>}

Yeah. Thanks for taking my question. Good morning. But other one on pension. You talked about the quarter method. What's the size of the quarter that you use.

A - Susan Hardwick {BIO 16618718 <GO>}

Well, I think the sort of standard approach is a 10%.

Q - Gregg Orrill {BIO 21090160 <GO>}

And that's across that's, generally across the company. That's okay.

A - Susan Hardwick {BIO 16618718 <GO>}

Right. We had just a single plant. Yeah.

Q - Gregg Orrill {BIO 21090160 <GO>}

Okay. Appreciate it.

A - Susan Hardwick {BIO 16618718 <GO>}

All right. Thanks, Gregg.

Operator

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