Q3 2017 Earnings Call

Company Participants

- Dan Dalton, President
- Deb Degillio, President
- Doug Brand, Senior Director, Customer Experience
- Edward Vallejo, VP of Financial Planning and IR
- Kevin Kirwan, VP of Operations, New Jersey American Water
- Linda Sullivan, SVP & CFO
- Mark Strauss, SVP of Corporate Strategy and Business Development
- Michael Sgro, EVP, General Counsel & Corporate Secretary
- Radha Swaminathan, Chief Technology and Innovation Officer
- Robert Lacorte, Financial Analyst
- Susan Story, President & CEO
- Walter Lynch, COO

Other Participants

- Angie Storozynski, Analyst, Macquarie Research Equities
- Brian Chin, Analyst, BofA Merrill Lynch
- Michael Lapides, Analyst, Goldman Sachs
- Ryan Connors, Analyst, Boenning & Scattergood Inc.
- Steve Fleishman, Analyst, Wolfe Research
- Unidentified Participant, Analyst

Presentation

Edward Vallejo {BIO 16076814 <GO>}

(Applause) Hello, I'm Ed Vallejo, Vice President of Financial Planning and Investor Relations at American Water. And on behalf of my more than 6,500 colleagues, I would like to welcome you all, the folks that are here with us at the New York Stock Exchange, plus the folks that are joining us in a webcast to our 2016 Investor Conference.

As you can see from the folks that are here, as you can see from our booklets, we have a great agenda for you today. But before we start -- aside from my picture, before we start I wanted to review the safe harbor which I encourage you all to read in its entirety.

In summary, what it says is during the course of the presentation today we will be making some forward-looking statements. And those statements -- those projections come with assumptions that we think are good. But sometimes things don't happen the way you want them to happen. So those projections may not turn out to be 100% correct and we wanted to remind you of that.

With that said, at American Water safety is our top priority. In fact we start every meeting with a safety moment and today is no exception I'm going to introduce Robert Lacorte. Robert is, aside from a very talented finance professional. He is an author of a book on driving safety. And we wanted him to share his experiences with us today and lead us in the safety moment.

So Robert.

Robert Lacorte

Thank you, sir. Hello, everyone. My name is Robert Lacorte. I'm a financial analyst in the finance department, with the budget and internal reporting team. I've been with American Water for over two years. What most don't know about me is that in my previous life I used to be a certified driving instructor. And also I wrote a safety defensive driving book called Don't Die in a Car. Now it's on Amazon.com and retails for only $8.99. So be sure to pick that up. (Laughter)

But on a serious note by a show of hands, how many people here have either been in an accident or know somebody who's been in an accident? Okay. And by a show of hands, how may people here have ever driven with someone that they consider to be an unsafe driver? Okay. So then you know how important driving safety is. Now did you know about 50 million car accidents occur every year? And 52% of those accidents, they occur about 5 miles away from those person's house.

So one of the reasons I became a driving instructor was because there were so many accidents in my community. And I wanted to make a difference. Now as a driving instructor I can teach one person how to drive. But as an author I can teach multiple people how to drive. So it's my hope that with this book, it can educate other people on what you can do and what you should be doing. And also sharing your experiences with other people so they can learn from your experiences. That way they don't have to live through it themselves, okay?

Now accidents and emergencies can happen at any point and at any time. So just be aware of where the entrances are and exits are. Also look to the New York stock exchange personnel just in case anything happens. But because we are sharing experiences that you want to learn from other people, good people learn from your own mistakes. Great people learn from other people's mistakes. And in this room, we're surrounded by so many great, hard-working, caring people that do want to make a difference. So just be aware of that.

Also lastly in regards to medical emergencies, who here specifically by a show of hands is first aid or CPR certified? Looks like a lot of American Water people are. But as you can see, not only can American Water help you out with your stock performance, American Water can even take care of you if you need first aid or CPR. (Laughter) Thank you, guys. (Applause)

Michael Sgro {BIO 1541469 <GO>}

Good afternoon. I'm Mike Sgro. And I'm General Counsel for American Water. I've been with the company for 23 years. And I've been General Counsel for American for about two now. So you may be wondering why the lawyer is up here talking about a talent contest. Well I would tell you that one of my dreams for about as long as I've been with the company is to have a talent contest that really showcased the personal talents of our employees. So I pitched that idea a number of times over the course of my tenure to various management teams and frankly got some polite applause -- or laughter. And some not so polite. (Laughter) So in this business you learn to play the long game. And so when I joined the executive leadership team, I pitched the idea again to Susan and the team. And Susan promptly turned around and said, why haven't you done it?

And so this year we had our first ever Tap Into Talent. Very simple rules, no legalese. One, you had to be an employee. Two, your video had to have a connection to water. So the videos were judged by the employees across the enterprise, they chose the top five. And then the executive leadership team chose the winners. And you're going to see the top two today. The winners received $1,000. Over and above that they received a tremendous amount of recognition from their colleagues, from the executive leadership team. And from our board of directors at our board meeting just a week ago. So the first video you're going to see is "It's Water by American" by Charlie Boland and Scott Simpson of Kentucky American Water. Then as we come back from the break, we'll see "H2O Serenade" by Terrance Green from Missouri American. So now on with the show. (Applause)

(Video) (Applause)

Susan Story {BIO 3335156 <GO>}

Weren't those guys great? Between Robert and Scott and Charlie and other people you're going to hear today, these are just some of the people that make American Water a great company. And the company is all about its people. And I want to thank you all for being here. You're going to hear over the next few hours our plan for 2017 to 2021. It's the same basic story. But with updated and new chapters. And we want to walk through and explain those to you today. Let me ask, by a show of hands, how many of you or your clients have owned American Water for at least two years? Are your clients pleased? How many of you wish you had bought in two years ago? (Laughter) It's never too late, let me tell you, it's never too late. And that's why we're here today.

What I would like to do is talk a little bit. And one of the reasons we wanted to start this meeting with a video of our talent contest is a lot of you have seen a version of this before. Typically what you see are the second and third parts of this chart. (Slide 9) We all know that highly satisfied customers have been specifically proven to result in better regulatory outcomes. I know that Morgan Stanley, JD Power have called it the virtuous cycle. You've seen it from other utilities and they talk about the circle of life or different things which basically we know statistically that JD Power has shown. And they came out with a new report that was released last year as an update from 2012, that showed that there are three outcomes that are better, based on customer satisfaction in the utility world. And that is that if you are in the top two quartiles of customer satisfaction as a utility, that there are three things statistically proven. You get faster rate case resolution, you get a higher % of what you ask for. And the ROEs are higher. So we know that, that is not speculation. That's basically been shown statistically.

So if that's true and then we know that constructive regulatory outcomes result in sustainable financial performance, then the real question becomes how do you get highly satisfied customers? If that really is the crux of getting to better regulatory outcomes. So what you see in the first area is what we at American Water, our plan for what we think it takes to get the highly satisfied customers. And there's three things. Let me talk about those very quickly. First one is engaged employees. Again this is not speculative. Basically it has been proven the Gallup actually did a report last year called the Status of the American Workplace. And they found that those companies where employee engagement was in the top quartile on average had 10% higher customer satisfaction rates. We also know Washington State University has published a study showing the correlation between engaged employees and highly satisfied customers, as well as Bain and Company. So engaged employees are a critical part of making sure that you have highly satisfied customers to get to sustained financial performance. And I would also posit to you sustained financial performance is not the goal, it's an outcome. If that's your only target, it will be short term, without the embedded cultural impacts.

The second thing that's important are smart investments. And you're going to hear a lot about smart investments today. Engaged employees are great. But if they don't have the tools to meet the customer needs, if we're not giving the customers the experiences that they expect, because they're not comparing their American Water experience to that of other utilities, they're comparing it to Amazon. And they're comparing it to these other stores. So what are we doing to make sure we make smart investments that end up being a result of having highly satisfied customers? And the last part, safe, efficient operations. Number one. The number one thing for engaged employees and the public is making sure every one of your employees goes home at the end of day to his or her family. And that the public is safe. And this year we've seen a lot of things in the paper when customers don't feel safe, on things like drinking their water, or there are violations of wastewater that go unremediated. So safe, efficient operations and efficiency make sure that customers can afford the bills. Because a key part is not just the experience but also how do they feel of the value is that they're getting from you.

So this is our success cycle. And what you're going to hear today will be mostly the third box. But you're going to hear a little bit about the second -- but I wanted to make sure that you understood when we talk about culture it's because we believe that's how you get to that end result of sustainable financial performance for our shareholders.

(Slide 10) So headlines for today, what you're going to hear more about from the financial perspective. Number one, we are affirming our 2016 revised guidance that we gave at the end of the Third Quarter call. We were $2.75 to $2 85. We narrowed and slightly raised it to $2.81 to $2.86, that is less the global binding agreement in principle that we did for settlement purposes for West Virginia. We're announcing our 2017 guidance of $2.98 to $3.08. We're continuing our EPS long-term growth projection of 7% to 10%, from 2017 to 2021, which actually is more of a stretch given the fourth bullet: we're moving our anchor from 2014 from $2.43 which was the non-GAAP, to the $2.64 which was at the upper range of last year. That's an 8.6% increase, when you look at the anchor and then projecting the 7% to 10% from the new anchor of 2015. So you're going to hear today from a lot of folks about how we're going to accomplish these.

(Slide 11) I want to spend just a couple of minutes -- we've been asked a lot about. So what do you think the implications of the new Trump administration will be? What will be the implications? What are the areas that you're looking at? You're going to hear a good bit about some of these today as we go through our slides. In fact the bottom two I'm not going to talk that much about because Linda Sullivan, our Chief Financial Officer, will cover those in terms in a good bit of detail in hers in terms of. So what are we actually looking at? What are the puts and takes? What do we think are the positives? What could be the potential negatives? So you'll hear more about that later.

I'll go to the end of the first line, support for more natural gas pipelines. With the secretary of energy of Rick Perry and Pruitt being the new EPA administrator, we believe there will be a lot more support for natural gas. You're going to hear more from Dan Dalton about how that is in a, to our water services, Keystone. Our water services area in terms of where we are serving in the Appalachian Basis (sic) and the Marcellus and Utica.

Department of Defense sequestration relaxed. We had told you this year we had headwinds, both in Keystone because of the natural gas situation which is pulling out now. But also in our Military Services Groupbecause of what's called the fixed capital upgrade that Deb Degillio, who is President of our market-based business at AWE, will talk about. That occurred mainly because of the budget of the Department of Defense through sequester were lower so as the basis we're prioritizing what they were going to spend their money on, infrastructure fell down the list. And we didn't see as many projects as we had seen in earlier years. We know that Congress is supportive of the sequester being relaxed. The potential future administration is saying that they want to relax it but one thing, regardless of anything different that's done, it may be news to you that in the current administration, for every discretionary dollar of defense spending that was made, there was a requirement, it was a policy, not a regulatory requirement, there was a requirement to spend one additional dollar of discretionary domestic spending. So the DoD could only spend a discretionary dollar under basis if it was matched by domestic discretionary dollars spent. And the Congress tried to get around it and weren't able to. Just not following that will free up more money for the Department of Defense. So you'll hear Deb Degillio talk a little bit. We've had headwinds in that area in 2016, we expect them in 2017. But we have reason to be optimistic going forward.

Then the last thing, infrastructure focus and financing. This one -- first of all, probably nothing will be done that quickly on this. But for us it's a matter of, we believe there will not be big pools of money will be available to bail out municipalities. There will be incentives for private financing. But with private financing you also have to have a debt component that municipalities have to borrow. And many of them are at the top of their bonding capacity. What our goal is with what goes on with the financing for water and wastewater is to ensure that our customers who also pay taxes, that we are eligible for some of the low-cost financing. So that as interest rates go up, we have access to the lower-cost financing. So that is our main goal under the infrastructure. We do think the focus on infrastructure is very positive. It's very good and it supports our basic premise the that you'll hear Walter talk a little bit more about later.

So we're busy looking at what does it mean, what are the pros, what are the cons. So before I bring Walter up here and our customer panel, some of things you're going to hear from us today our commitment for the next five years. I talked about the first bullet. You'll hear more, it's the first time we've actually given a range for our five-year capital. And that range is primarily due to the regulated acquisitions. And looking at probably a sliding scale of what we see over the five years for regulated acquisitions. You will see a really stretch target for our O&M efficiency target that Walter will be happy to talk about. Setting the bar for customer satisfaction. We currently have a third-party proprietary customer satisfaction survey we do with water utilities all over the country, mostly large municipalities, other (IOUs). We're in the first quartile. But our goal is to be the top of the first quartile. We want to be the best of the best, because again we don't think ultimately we should be comparing ourselves to water utilities. We think is we should be comparing ourselves to companies that give the best customer experience. And you're going to hear from a panel of some of our folks talking about how we're going to do that in a couple of minutes.

Continue our complementary market-based businesses. You'll hear from Linda Sullivan that we expect, it's about 10% of our net income now, by 2021 we see market-based in total AWE and Keystone still being at right at 15%. We are at our heart and our core a regulated utility. The next to the last bullet is really important to us. Leading innovation water quality and environmental stewardship. Because of our size, scope. And scale. And the fact we that we have an R&D group with 20 scientists, we're the ones working with the EPA. We know that we have an ability to influence water policy for the better, to ensure that we have truly clean, safe water for life, not just for our customers but hopefully for people all over the country. And you'll hear Linda talk about our dividend plan.

So sit back, we will have a customer panel that's a little different, I think you'll find interesting how innovative the water industry can be, especially when you hear from the next panel. So with that, I'll bring up Walter Lynch, he'll introduce our panel.

Walter Lynch {BIO 6064780 <GO>}

Come on, panelists. Thank you, Susan. We're going to be informal, we're actually going to sit down during this panel. Well as Susan said, I'm Walter Lynch, Chief Operating Officer of American Water. And I'm privileged serve as the panel coordinator for the customer enhancing work that we're doing within American Water. It's going to be a 30 minute segment and after brief introductions of our panelists, I'm going to ask them questions, get their perspective on what we're doing to enhance our customer service. And we're going to open it up for one or two questions from the audience. So during this time you could be thinking about a good question to ask our experts here, that would be great.

So as you know we have the customer at the center our strategy wheel. We also say that customers are at the center of everything we do. While we've had a great focus on customers, we really stepped up our efforts over the last couple of years and what we're going to continue to do in the future. So we're excited about it, I'm excited to have these experts here and backgrounds in customer service to talk about what we're doing to enhance this.

So let me open and introduce the panelists. First starting with Doug Brand, who is our Senior Director of Customer Experience. Doug has more than 15 years experience in communications and marketing. And he spent 13 years in both PepsiCo and Campbell Soup and comes with a wealth of background and customer service. He's in a newly created position. And his goal is to enhance our customer experience, increase our satisfaction. And increase our customer advocacy. So it's a big challenge but Doug is up to it, working with the rest of our team across American Water.

Secondly, Kevin Kirwan. Kevin has been with American Water for 31 years, all in New Jersey American Water. Talk about an expert in our field. He's a turn-to person to go to in our business. If we have operational issues, the first person I call is Kevin. He's been in a number of management positions for 31 years and in his current role as Vice President of Operations in New Jersey American, he has responsibilities for the full realm of operations, from water and wastewater treatment, to distribution, to water quality, to customer advocacy, to environmental sustainability. So just a tremendous resource and we're so glad that Kevin has been here for 31 years.

And lastly Radha Swaminathan. Radha has only been here for eight months with our company. But he's had a tremendous impact in so many areas in our business and particularly the way we think about the customer and technology. He has over 20 years experience in technology implementation management with several large electric utilities. And he's actually has six patents in the area of the intersection between customer and technology. He did the smart grid system implementation for Florida Power & Light. And just has tremendous expertise in this area. And he is very willing to share it with all of us.

So It's really great to have these three individuals on our team, with varied experience inside and outside this business that are really going to drive our customer experience. All right. So I'm going to start the questioning with Doug. Doug, why is this effort into customer advocacy so important to American Water and to our customers?

Doug Brand {BIO 22393868 <GO>}

Well Susan mentioned earlier that the customer is at the center of everything we do. And what I think we've realized now is that it's win-win-win. First win is for the customer. It is great to be served in a way that you're delighted. The second win it turns out is for our employees. We've got an incredible passionate group of employees that want to be great at their jobs. And seeing that satisfaction that they deliver from our customers is warming to them. They know they're delivering excellence. Then Susan also mentioned that the data proves that if your customers are satisfied that the ROes end up being delivered. There's a correlation that's been proven over 15 years by JD Power in the electric industry. And this is not something new, it's not like we just realized this. We've been delivering very good customer service for a long time, Susan mentioned that we're in the top quartile of the water industry.

But the real realization for us has been that our customer set, their frame of reference is not the water utility industry. So while we've been measuring ourself against the water utility industry. And we've been proud that we've delivered great water utility customer experience, the realization is that the frame of reference for the customer is all of the other companies that are serving that customer. They only have one water utility. Susan mentioned Amazon. Cable companies. As they're all competing against each other in telecom, cable, retail banking, the technologies that they're bringing to the table for our customers are continuing to raise the bar of what the customer's expectation of what good customer service looks like. And we in the water utility space as a whole need to meet that challenge. And at American Water we're trying to meet that challenge head on. I think you'll hear a lot from this panel about what we're doing.

Our intent and our goal, what gets us out of bed every day, is that if our customers could choose, they would choose us. If we can deliver that, I'm sure we're going to be in a great place.

So we're looking at our customer set. And we're doing what's necessary segmenting them. We understand that not every customer need is the same, even within our residential segment. We've got a commercial segment, an industrial segment. And I'm sure Deb will talk a lot later about the market-based segment that has a number of sub-segments inside of it, the Department of Defense, industry, municipalities.

The residential segment wants their relationship with us to be really easy. Most folks don't want to think too hard about their water utility relationship in the 21st century. But we recognize that the easier we can make it, the better off our relationship is going to be. Our commercial and industrial customers, they're looking for our expertise. Can help them with O&M? Can we give them collective billing? How do we do everything for the residential customers. But also for the commercial-industrial customers raising our game and being a real asset to them?

Then on the market-based side of the business, they want us to bring full American Water-ness, all of our knowledge that we have inside the company to bear for their benefit. The Department of Defense I know really benefits from all of the experience that we have serving well beyond the DoD. And so we say on our team, the customer experience team, that the customer's perception is your reality. And for us the perception that we want, the reality we want is that our customers are really proud that we are their water services provider. And that we believe that ultimately they're thrilled to have us as their water utility, that the rate cases will be easier. And that our reputation, what is said about us behind our backs will ultimately help to drive the acquisition that we've got built into our growth plan.

I know Radha has some interesting information to add here as well.

Radha Swaminathan {BIO 20502265 <GO>}

Thank you, Doug. First of all, thank you all for being here. It's a great opportunity for us to share our vision and where we are headed to, especially related to the customer and the transformation of a customer. In the last eight years or so we have been pursuing a lot of smart grid transformation, especially in the electric side. And that has brought home several things that we did not knew before, it has enlightened us with respect to where and how customers intersect and play within the utility sector. And it was very revealing, when smart grid programs started, very soon we realized it's all about customer centricity. And so smart grid programs we turned around and designed programs specific to customers, as in customers choice programs, smart payment programs, preferential alerts, outreaches. And tools for energy management.

And along the journey we realized one simple thing. Empowered customers are engaged customers, engagement drives satisfaction, satisfaction promotes advocacy. And that in turn promotes profitability and favorability with regulators. And indirectly and directly to the growth of the company. We realized that customer service is not a department. So it's now everybody's business within the enterprise on how we touch reach customers and drive personalization to the customers and empower customers. So there is tons of learnings. And there is we have gone through a great path on the electric side. And we can take those learnings and advance it now even to a different level from customer centricity to total customer immersive experience, which (then set of) technologies. And I'm sure we'll talk about it next.

Walter Lynch {BIO 6064780 <GO>}

Great, Radha, thanks. Doug, back to you, what are some of the activities we're engaged in to drive our customer experience?

Doug Brand {BIO 22393868 <GO>}

Yes. So when we think about, Walter, the activities, we break them into three buckets. The first is the customer facing interaction. The second is managing the work in the most efficient way possible, using the customer's dollars to the maximum of their power. And the third is making sure that we utilize technology to deliver the best in water quality.

So I'll first cover the customer facing technology and interactions. There's a lot of work going on right now. Maureen Duffy is in the audience right now, she's been working very hard on a website redesign that's launching on January 1. So just a couple of weeks now we are making our website for our customers much easier to navigate in your account, sign up for paperless. And all the other things that make the interaction with your water utility easy. So that's very exciting and coming soon.

In addition, from the call center operations side, we're working very hard to install a new level of technology. And one of things that we're installing that we're very excited about is this concept of virtual hold. We want to show our customers that we respect their time. It's the one thing if we took we could never give back. And so when our customers call, we're going to tell them the average hold time right now is X minutes. And if you do not want to wait in that queue, we can hold that space in line for you and we'll call you back when an operator is available.

This is not (bleeding) edge. There are a lot of companies that are delivering that right now. But not in the water utility industry. And so we're trying to raise our game and be in the forefront of those types of technologies at the call center.

In addition, we're looking at a range of technologies in the alert space. So we want to deliver a preference center, a communications preference center for our customers so that they can personalize the experience that they have with us. We can give them alerts in the future around billing and payments, around planned work that's happening in your neighborhood. And on emergencies that are happening in your neighborhood. And around conservation, whether it be tips or information about your specific account.

But what we want to deliver for our customer is a place where they can go, let's say on the web and click through: for these messages I want to text. For these messages email me. For these messages that's not that interesting to me, don't contact me at all. And that's fine as long as it's not an emergency alert that we're mandatorily need to deliver.

We respect your desires. Our goal is that our customers be able to personalize their experience, every customer being unique as it relates to how they use their communication tools. And we want them to know that we do give them as much choice as we can within that interaction that you have with us.

And I know Radha has a lot of really interesting things cooking in the next three to five years. And he'll you more about that.

Radha Swaminathan {BIO 20502265 <GO>}

When it comes to technology, when we went back again eight years when we started smart grid, the customer outreach was predominantly (bleeding) emerging technologies then, which were digital web, mobility. And so on and so forth. Now over the eight years, they have matured a lot. But there is something unprecedented interestingly happening in the technology world that can connect customers. And it touches our lives every day.

So when we go to Amazon, when we search books, it tells us what we like, what we don't like, the likes, the preferences. It brings up stuff that are akin to what we have searches. And we are literally in the age of realizing artificial intelligence. And we believe that it has a tremendous amount of potential in trying to connect customers and utilities.

Now for example, let's go down two scenarios here. Today let's say someone calls us and says, we have a high bill, it is an exceptional scenario, it a normal --probably somebody filled their pool during summer, it's a one-time high. And after we fill the pool, sometimes we forget. And then the bill comes later, it's difficult to correlate. And then so we do investigation, we get back to the customers.

Now today we can deploy. And its available today, we can deploy reasoning machines that can -- or we call them bots, that can scan, understand the customer call, right, understand the inflection in the voice, understand the sentiment of the customer, in parallel look and analyze the bills for the last 24 months, understand that this is an exception. And proactively position all the data with recommendations to our customer service reps. So when we connect the customer, right, it is much more specific, personalized. And we can provide them, help them understand this is a one-off scenario. And also in special cases if need maybe we can suggest them to go on different payment plans. So there is a ton of options that are very personalized to the call, that we wouldn't have envisioned a few years ago. And it is mainstream now, right.

And here is another example. So today when we look at our customers, right. So when they get on our website to do move-ins, move-outs, or if you have a question, they get, they search. And we believe we strongly see in the future, in near future actually, that the entire experience becoming a total customer immersive experience, again with artificial intelligence type technologies. For example, right. So you can get on our web and start searching and within a few minutes, today again we have the technology to understand, based on the natural language that you use to search, it can quickly converse to what you're looking for. And we can prompt up and say, is this what you're looking for?

Or are you try to do a move-in? Or are you trying to understand your bill analysis in the last few months? Or whatever the case may be. And in case of a moving, we can pop and say, look we need these three things from you, right, your Social Security, your credit card, whatever the things maybe, particular to the scenario that they are on. And we can say, if you have them, we can connect you from the web directly to the customer service rep. Instead of them picking up the phone and making a call, we can have the machine connect an available customer service rep directly to the customer who is searching.

So it's a transformative, immersive experience that is seamless from a web to a customer call to talking to an agent, taking care of transaction on the spot, with guided assistance from AI to complete the transaction in many, many cases. And so we see that as the future of going from customer centricity to a total customer immersive experience. And we have several things we are looking at to make that a reality in the near future.

Walter Lynch {BIO 6064780 <GO>}

Thanks, Radha. Can you heard the passion in Radha's voice? I want to pose the next question to Kevin. Kevin, can you talk about the technologies that we have in place right now that are helping drive operational efficiency. And then how that benefits our customers?

Kevin Kirwan {BIO 19990896 <GO>}

Sure. Well it's not just operating efficiency, it's also capital efficiency, regulatory compliance. And then customer satisfaction. And from my perspective, there's a lot of things to balance each day. But at the center of everything is customer trust, because that's the business we're in. And ensuring that the water quality is safe to drink. And we're running our systems in the most efficient manner. And I'll give you some examples. And I've been here for quite some time. (Laughter)

And recently in the last several years I've seen the business change. And I'm proud to say that we've been part of that change, within our operations we've created that change. And we're differentiating ourselves from other water utilities in the way that -- you can look at a lot of utilities. And they have GIS systems, asset management systems, work management systems, separate repositories for water quality. And the list goes on. And what we've done is we've integrated our work management, our asset management, our GIS, our SCADA systems, our energy monitoring systems, environmental, external sensors. And we're bringing them into one view. And I call it a real time operational view. And that really starts to separate us from others, in the way that we can identify trends.

For example, in a real time water quality view, what happens in most systems, they collect water quality samples. Those water quality samples are either within tolerance or drifting one way or another. And the key to maintaining water quality in the distribution system is reacting. Reacting promptly. So what we have built is a system that sends notifications to the different stakeholders, whether it's production operations, field operations, water quality.

And if it is of a certain level, it escalates even up to senior management. So what that does is instead of waiting for samples to come back to the lab, somebody to enter it into a particular system, potentially say there's something that needs to be addressed, it's all happens in real time at the time they capture it at the sample site. So that is differentiating us from a regulatory perspective. And it'll certainly drive customer trust.

On other operational efficiency items, I'll give you another great example on leak detection. Leak detection or unaccounted-for water in the business is an issue that all utilities have to address. What we've deployed is almost about 1,000 sensors, acoustical sensors in our distribution system. And I had a question from a fellow earlier and he was asking, is it in the control room view? This is a web-based service but that we've integrated an acoustical leak detection process that goes up to the cloud, that information is linked to our assets and our GIS system. And in turn our work management. Immediately upon deploying those leak detection sensors, we found 40 subsurface leaks that were not coming up to the surface.

We were able to address them, reduce unaccounted-for water. And furthermore now that becomes work order, a crew truck goes out and investigates. Back to the integration of all systems. We've also scanned and integrated and linked our legacy documents, all the maps from years ago when these systems were constructed. All that is in one system, mobiley enabled to the folks in the field. So the guy in the truck or gal in the truck has full access to all the information that he or she needs to do the work effectively. All that coming together drives operating efficiency, because it's less response time, more accurate excavations, less roadwork, etcetera.

On the wastewater side, which we do very well in wastewater is well, we have the inverse of unaccounted-for water which is infiltration. In our barrier island systems that we manage on wastewater collection systems, we have level sensors and flow sensors. So we can assess and in real time the impact of weather, rain events, on collection systems, as well as tidal events. So depending on the integrity of your collection system, we can point to spots in the collection system that need repair, target the capital in the right way, whether its replacement or lining.

So we have those as some examples. And we have sensors, pressure transient sensors, because pressure management in our system, it's a key to any system, because they can lead to main breaks. So we have the ability to deploy cellular sensors. And it all comes back into this one real time view. And that's where we are now. So compared to separate silos of information, we've tied those together and now with the technology that's coming over the horizon, the AI and machine learning and advanced analytics, we have from my perspective the platform in which we can enable and drive more value and insight into how the system runs, because that's really what it's all about.

Walter Lynch {BIO 6064780 <GO>}

Great, Kevin, thanks. You can see, he can talk about that all day long.

Kevin Kirwan {BIO 19990896 <GO>}

I know, I usually get the -- (Laughter)

Walter Lynch {BIO 6064780 <GO>}

So at this point, I'll open it up to any questions in the audience. Ryan.

Ryan Connors {BIO 15032883 <GO>}

Yes. So this is Ryan Connors with Boenning & Scattergood. My question is, Susan mentioned at the beginning how good customer outcomes lead to better rate case outcomes. And I guess inasmuch as the customer is represented in the rate case by some entity, whether it's a rate council in New Jersey, or the office of consumer advocate in Pennsylvania, can you talk about how the metrics you use to measure that customer experience. And how you make sure the right processes are in place. So that those organizations are, have the right information and know how well you're doing in that regard. And that gets reflected when they go to bat for or against you in a rate case. And also how those things differ from state to state, are there some states where that's done better than others? And what are you doing to work on improving it where it could be improved? Thanks.

Walter Lynch {BIO 6064780 <GO>}

Great question, thanks. Doug, you want to take the --

Doug Brand {BIO 22393868 <GO>}

Yes, sure, I can talk a little bit about this. So we have a number of different survey methodologies that we're using right now to measure the satisfaction of our customers. We have our own proprietary survey that we use to survey our customers across all of our states. So we gather enough of a sample size in every one of our states through a comprehensive battery of questions both online and via phone, that include enough diagnostic questions that we can be diagnostic and provide action oriented advice to each state level around where the customer perceives -- what their satisfaction is. And what are the drivers of said satisfaction.

We also follow up consistently on all of our service orders. So that's our service quality survey. So if you have an interaction with us that involves talking to our CSRs on the phone. And then our field service reps, we're going to follow up with you in a couple of weeks to make sure that, that journey that you had with our company was satisfactory. And if not, get to the diagnosis and make sure that we can make changes to process or corrective action in place to make sure that, that service continues to be done well for our customers.

In addition, JD Power has created their water survey in 2016 and that is the for first time. They've obviously been providing data and recommendations to electric the electric utility industry for over 15 years. So we've benefited this year from the breadth of information that they've been able to provide. We have been sharing all of this information with our individual states. And they do in many cases share that data with the regulatory commissions. And our goal is to make all of the data that we have available to everyone in the conversation, because it is our intent to do a very good job. And in most cases the data has spoken for itself. But we do see in many cases a bit more room to run. And its our intention to continue to close that gap. That's pretty much I think what I could add at this time.

Walter Lynch {BIO 6064780 <GO>}

Great, anybody else? Kevin or Radha, want to add there? Okay. Yes. It's very important that we learn from where we can improve. And (a lot of state presidents here), we go through that data in great detail and say, what do we have to do to improve as an organization? And we take clear actions in what we're doing there. And we've seen the benefits of that. We're in the top quartile. We're not satisfied being in the top quartile.. And I think that's one of the takeaways you're hearing today is that we're only going to be satisfied when we're at the top, because we want to differentiate ourselves in that area.

Doug Brand {BIO 22393868 <GO>}

I've just thought of two additional things that I could add. First would be that we're in the process now of doing journey mapping, which is mapping the individual journeys that our customers take with us. So if you're moving in the state of Missouri, we're going to follow you through the journey of moving in with us. And finding out all the different touchpoint opportunities that we have to make sure that, that 's a satisfactory experience with you. We've mapped some of our journeys, including our move-in journey. And are already making improvements. We've identified a number of journeys we have plan to map 2017, as we follow our customers through their everyday life of having to do business with us.

The other thing that we have in place is something that we call pulse surveys, which is really just keeping our finger on the pulse of immediate interactions with us. You all go to restaurants and they hand you the receipt and there's a circle on it saying please go online and take this survey now. They're just looking to find out in the moment, are you satisfied with the service you've just had in ordering that hamburger? Well quite frankly we're interested after you meet with one of our FSRs, or talk to one of our CSRs at the call center? We want to know, was that a good experience for you?

And so we've implemented the technology to get immediate feedback when you're on our website, when you're talking to our call center, or right after you'd had the experience of dealing with one our field service reps, because we want to use it to both provide corrective action to the individuals. But at the same time assess holistically in the moment, are we serving our customers well today? As opposed to waiting, as we have maybe in prior decades, to the quarterly customer satisfaction results. We don't need to nibble on our finger nails any longer. We know day to day how are we doing.

Walter Lynch {BIO 6064780 <GO>}

Great. Yes, Kevin?

Kevin Kirwan {BIO 19990896 <GO>}

Walter, on the larger scale, on the larger customers we've identified the larger customers on our GIS system. So when we have service disruption or main breaks, the folks in the field know that there's a critical customer nearby and will take the appropriate actions. And secondly, we've also started the large customer reach out program where we're personally calling our largest customers, about 100 of them on the large end scale, to find out how we're doing. Not related to any service work but just in general, any needs. And Princeton University, we're actively working with them constantly, it's a large campus, many metered connections, (PSE&G). And then also several hospitals for redundancy and emergency management services. So they're very appreciative of just calling them when there's nothing wrong either. Looks like Radha wants to jump in.

Radha Swaminathan {BIO 20502265 <GO>}

One last point. So when we talk about customer surveys, poll surveys. And understanding where we are today, we have tons of technologies that can do it effectively. When they use credit cards they talk back to us on how was the experience etcetera. But in the future where we are taking this is extremely important, because this will be a game changer in many ways. When we think about understanding customer surveys, now we have technologies that we can deploy where we can not only capture a specificity, right, as in, okay, on a five star scale, where would you be?

But we can now capture in plain simple English, why do feel that way? And we have machines that can understand, read and understand what these are. And why it ties back to a specific transaction or a specific work order and what the improvements thereof, for us to help achieve customer -- high customer advocacy and high customer engagement. So now we have tools that can help us micromap at every sale transaction the customer sentiment. And how we can personalize and improve to that specific customers. We are seriously looking at some of those advanced AI-based technologies to help drive those types of (contractions) in the future.

Walter Lynch {BIO 6064780 <GO>}

I think we're just about out of time. I just want to leave you with a couple of key points. As you can see, we're focused more on the customer now than we've ever have in this business. We think technology is going to be a key enabler to get us to where we need to. And also our mindset around if our customers can choose us, they would choose us. That's a big mindset shift in a lot of companies.

And I think our team, I know our team is committed to it. And it's really taking off across the business that we want to be a water company of choice. And I look for great things and we have folks like this with a passion around serving that customers, you could only do great things, believe me. So I want to thank the panelists for their great work and their great discussion here today. So thank you. (Applause)

Okay, you're stuck with me for the next half an hour. I'm going to talk about the regulated operation -- the regulated business and the key drivers that enable our success. (Slide 16) First let me lead off with a brief overview of our regulated business. Our regulated business provides water and wastewater service to approximately 12 million people in 1,600 communities in 16 states. As you can see we operate from coast to coast, from New York to California.

That geographic diversity helps us mitigate both weather and regulatory risk. On the weather side, it can be hot and dry in one part of the country, wet and cool on the other. And I think you've seen that this year. In our Midwest states they experienced higher than normal rainfall. And in the Northeast, primarily New Jersey, that hot and dry weather.

We have a tremendous amount of assets. You think about it we have 81 surface water treatment plants. 81 dams, just coincidentally the same number. 49,000 miles of mains and collection pipes. Just a tremendous man of assets. So think about that when I'm talking about the capital program a little later. We treat and deliver, you can see it down the bottom there, we treat and deliver 1 billion gallons of water every day for our customers. And in 2015, the regulated business provided about 90% of the operating revenues for American Water. And you can see the chart on the right, our two largest states, New Jersey and Pennsylvania, account for nearly half of our operating revenue in 2015. And our top seven states account for 87% of our operating revenue.

(Slide 17) You can see the growth triangle here providing the components our 7% to 10% growth. The biggest component is on the bottom in blue, regulated investment. And that's what I'm going to be talking about now. And it's really making smart investments in our systems to improve customer service and earning a return on that investment.

(Slide 18) Our regulated systems have long-term, long-term investment needs. You can see in 2017 we're going to be investing about $1.2 billion. And over the five year period we're going to be investing $5.9 billion in our infrastructure. We've also given you a look into the future in the 10; and 25-year horizons. And what the potential investment opportunity is there.

There are a number of factors that play into these estimates, including water quality needs, impact on the customer, tax policies, interest rates, among many others. You look at the 25-year potential of $40 billion. We also tied that in to a study done by the American Waterworks Association called "Buried No Longer: Confronting America's Water Infrastructure Challenge" and we used the % of the population that American Water serves.

So let's not forget where we are in this industry. I'll take you through a snapshot of the challenges that we face in this industry. There are 1 million miles of pipes in the United States on the water side. And we experience a main break every two minutes. We lose 2 trillion gallons of treated water, that's treated water, not just raw water, that's treated water, at a cost of $2.6 billion. And that's 20% of all the treated water in the United States.

On the wastewater side, 800,000 miles of collection pipes. And many of those pipes were put in years ago. They're in dire need of replacement and they're posing a risk to groundwater. 900 billion gallons of untreated sewage every year is discharged into our rivers and streams. So a tremendous challenge. By 2020 in just four years, 44% of all the pipe in the United State are going to be classified as poor or very poor or life elapsed.

And it's really one of the reasons that the American Society of Civil Engineers gave the water and wastewater infrastructure a D rating. And that's the lowest of any infrastructure in the United States. And there have been many estimates out there as far as what it's going to take to upgrade the water and wastewater industry. Many of them center around $1 trillion over the next 20 to 25 years that's going to be needed to upgrade our water and wastewater infrastructure.

(Slide 19) You can see our five year capital plan. We're going to be spending between $6.7 billion and $7.3 billion of investments over the next five years. Of that total $5.9 billion will be invested in regulated system investments. You can see the chart on the left provides an overview of the three components of our investment of the $6.7 billion to $7.3 billion, the largest being regulated system investments. And again that's all the investments in our infrastructure to upgrade our water and wastewater systems.

We have money set aside in regulated acquisitions of $600 million to $1.2 billion. This provides the capital necessary to acquire the system that's in our business plan and to provide the 1% to 2% growth. Then we have strategic capital as well. That's the capital necessary to grow our market-based businesses as well as any strategic investments.

You can look to the right in the pie chart. That provides our average capital spend over the next five years by purpose, the largest purpose being asset renewal. And that includes pipe replacement, I'm going to talk more about that in a little bit. And upgrading our water and wastewater treatment plants. The next largest category is in capacity expansion. And that's distribution extensions to serve new customers within our existing franchise areas. That includes the pipe, meters, hydrants. And valves. And you can also see on the lower left in the lower left, in a dashed blue of 7%. That's the capital that we've set aside to address the replacement of lead service lines. And I'll talk more about that on the next slide.

(slide 20) You can see the pipe replacement rate that we have in the business on the left, we continue to invest significantly in our business. We've improved dramatically from a 250 year replacement life back in 2010, about a 140 year replacement life in our five year plan. Our goal is to get to a 1% or a 100 year replacement life. But we've got to balance that with the impact on our customers. That's a key determining factor in what we're doing as far as level of investment in the business.

You can look to the right, we have 7% of our capital over the next five years that are dedicated to replacing lead service lines. We estimate about 150,000 customers have lead service lines. And that's less than 5% of our customers. We are in full compliance with the Lead & Copper Rule, just want to make sure everyone's clear on that. So we own a portion of the lead service line and the customer owns the other portion.

What we want to do is be proactive and address the situation with the commissions. And we are in discussions with the commissions to replace both lines at once, because there's a lot of research out there that says a partial replacement may create additional exposure as far as lead leaching into the water. And we want to play a proactive approach in resolving the situation and addressing it over a 10 year period. We estimate about $800 million to $1 billion is what it's going to take to address the situation but replace both lines at once. And again we're in discussions in each of our states with the regulatory commissions to move that forward so we get (reg) recognition of that investment.

(Slide 21) Our capital program is a balancing between what we can invest and the impact on our customers. And so we know we've a significant amount of investment to make in our systems. And so we're focused on operational efficiency and capital efficiency, will enable us to do more work on mitigating the impact on customer bills. We also are going to continue to work with the regulatory agencies to get regulatory support in the way of infrastructure surcharge mechanisms and other mechanisms that can allow us to invest in infrastructure and get a timely recovery in that investment.

(Slide 22) Again I'm going to discuss operational efficiency, capital efficiency, then regulatory support, the first being operational efficiency. And you can see the progress that we've made over the years, from 2010 driving efficiencies in our business. We use a measure, O&M efficiency ratio, I know you're familiar with it, O&M costs over revenues. And you can see the progress that we've made, from going from 44.2% in 2010, to 34.9% for the last 12 months ending September of this year. Tremendous progress. And as Susan said in her opening, we established new target of 32.5% by 2021.

As you remember, the last target was 34% in 2020. And we probably have gotten a million questions on, when are you going to move that? So this is the first time that we've put this out, 32.5%. This only happens by the great people in our business understanding how important it is to operate efficiently and drive down costs in this business. And it doesn't just happen from us telling them, it's got to be part of the culture. And I think an important thing that's so fundamental to our business.

When we can make smart O&M reductions, invest in our systems. And mitigate our customer bill impact, it just makes tremendous sense. We use a real simple measure in this business. For every one dollar in O&M cost that we take out of the business, we can invest $7 in capital in the systems and mitigate any increase on customer bills. Our employees understand that.

So when we're looking for cost reductions, they understand the why. And that's really what's moved the culture at American Water. There are so many examples what we're doing to drive efficiencies in the business. And I spotlight many of those on our earnings call on a quarterly basis.

But I thought one that really stands out is the work that's been done in New Jersey working with supply chain. New Jersey is an energy deregulated state. And so we're able to take advantage of reverse auctions. We started this back in 2011. We just recently completed one in 2016. And we're able to save $9 million over a three year period, that's $3 million a year. And less cost that our customers are going to have to pick up. I think about that and that measure.

That allows us in New Jersey to invest $63 million in our systems, with no impact on customer bills over a three year period. That's just tremendous. And I want to thank Bill Varley, President of New Jersey American Water, working with supply chain and Kevin, in driving this for our customers' benefit. Just tremendous work. This is one of dozens of examples that I could spotlight here today.

(Slide 23) We also understand driving capital efficiency allows us to do more with the same amount of money. This benefits customers tremendously because we're able to address the infrastructure challenges that we have in our business. And do so with the same amount of money we can do more work. Think about that from a customer perspective. Are we driving efficiencies when we spend capital dollars?

So I wanted to spotlight three examples. You can see in the upper left we're building a reservoir in Bel Air, Maryland. We do what's called value engineering with our engineers. Any of the large projects we bring in a team of engineers and we look for ways to drive efficiencies in those capital costs. In this example, we had a two day workshop, we brought in tremendous experts as far as the capital design and engineering design. They came up with 22 recommendations and they saved $625,000 off the design of this reservoir in Maryland.

They did a number of things but just to give you an example of two of them. They relocated the intake stream on the reservoir to save money. And they also reduced the liner in the reservoir, the depth of the liner. But they just explored a number of things to drive the cost down. And again $625,000 in savings.

We also deployed a variety of trenchless pipe lining methods across the business. This is really helpful when you look at pipes going under rivers, under railroad crossings, in congested areas. If we can do this, we can save tremendous money because we're not going to have to dig up and cause disruption. So we're saving -- we only do this in 5% of our pipe right now. And that's increasing every year. But just on that 5% we're saving $5 million a year.

And lastly, we leverage the purchasing power of American Water. And in this case we're saving $2.7 million on buying meters and pipes with better pricing. So do we have to do this? Not really. Are we committed to doing this? Absolutely, because we see the value not just for American Water but we see the value for our customers. So just tremendous work across the business. I could go through dozens of these examples.

(Slide 24) So lastly, I want to show you the regulatory mechanisms that we have and the progress that we've made in receiving these regulatory mechanisms since 2010. We've gotten an additional 16 mechanisms and you can see in each of the five categories that we've done a better job in getting these mechanisms since 2010. I want to start on the left side, infrastructure surcharge mechanisms. This is where we invest and we get a quicker return on that investment. And when we do a filing with the commission without having to go through a full rate case.

As you know, a few years ago we got it in New Jersey, we were able to move more money into New Jersey and get a return. Our most recent success is in West Virginia. And I want to thank all of our employees in West Virginia and the commission and staff for allowing us to get this mechanism. It's going to have a big impact on the investment that we do in West Virginia.

We also were able to get forward-looking test years, two additional test years, one in Indiana, one in Pennsylvania. And you can see the progress that we've made on the right side, as far as the revenue or declining usage adjustments. We've gotten those in an additional eight states. So just tremendous progress. What this allows us to do is continue to invest and get a timely recovery on that investment, which is key to our financial success and our operating success.

(Slide 25) So the rest of my time I'm going to be talking about growth. And acquiring systems at American Water. Our regulated acquisitions will provide 1% to 2% earning per share growth over the next five years as part of our growth triangle. So what I want to talk about is how we look at this. And why we're well positioned to deliver on this growth. You can see that 84% of the US population is served by municipal water systems. And 98% of the US population served by municipal wastewater systems. Just tremendous amount of opportunity for us to grow the business. It's also highly fragmented.

On the water side, 53,000 community water systems. And 17,000 community wastewater systems. On the water side, it's even more fragmented. 83% of the systems serve less than 3,300 people. And 92% serve less than 10,000 people. But tremendous opportunity for us to get in and consolidate and bring our expertise and our capital to play. Now we know a lot of municipalities are looking at exploring options. We're in discussions with them across our footprint.

Many of the things that are driving the decisions are capital constraints, budget constraints, pension obligations, increasing standards on the water and wastewater side, that are driving them to look at options. And because we operate in 16 states we have footprints across the states, we're in a great position to have these ongoing discussions and find solutions that work for us and work for the municipality. And one of those is the sale of their water and wastewater assets.

(Slide 26) You can see we've worked very well with regulators and with legislators to enact legislation to enable acquisitions to happen. And this is a key focus for us over the years. You can see the progress that we've had here, going back to 1997. But just starting in 2012 on the things that we're doing as far as fair market value and single tariff pricing and those kind of things. So let me start -- I'm not going to highlight or talk about all of these, I want to highlight just two.

2012 Act 11 in Pennsylvania did a number of things. But for us the biggest mover on here was allowing us to blend the wastewater rates into overall rates as a way to mitigate the acquisition price and mitigate future investment in acquisitions on the wastewater side in Pennsylvania. Prior to Act 11, we bought a wastewater system which we did and we had to significantly invest in that system, it was just on the backs of those customers. And now we're able to spread those costs across an entire customer base in Pennsylvania. And Kathy Pape did a tremendous job in working with the legislator -- legislature and moving this forward in 2012. So thank you, Kathy.

In New Jersey we have WIPA, the Water Infrastructure and Protection Act in 2015. We know that was hugely successful to New Jersey. Many other states are looking at replicating that. But it does two things. One is it provides the municipality with an option as to whether they want to do a referendum. And that's based on if there's an emerging condition in the system that poses a threat to the water and for the environment. So the city can say, we don't want to do a referendum. The other thing it does is it establishes a fair market value based on appraisals of the systems. So we go out and get appraisals, we can put that -- that appraised value into rate base as long as the commission deems that it's reasonable. So tremendous progress.

While I'm up here I'll highlight one other, Act 12 in Pennsylvania. That's fair market value legislation that just came out this year. Same thing, an appraised value. And getting that appraised value into rate base. So there's great momentum across our system and across the United States. And American Water is playing a leading role in negotiating these each of the states. So I want to thank our entire teams for the great work they're doing here.

(Slide 27) We thought we'd get a lot questions on acquisitions and how long does it take to fully earn on that acquisition. I thought I would take you through the approximate acquisition timeline. So the agreement process, that begins with the issuance of a request for proposal from the municipality. They then have to evaluate bids, we have negotiations, we have local approvals. Then there's the signing of the asset purchase agreement.

When that asset purchase agreement is signed, we consider it pending and then we make it public. We also then request approval from the regulatory agency. During that time, six to nine months, we're working on integration issues so that we can take ownership of that system right after the approval is given.

Once the approval's given, we close, we take ownership. And we serve the customers at the initial rates. We then have to work that into the next rate case. And that can take anywhere from 12 to 36 months, based on the timing of the next rate case. All right, Linda's going to go through more the financial implications. But I wanted to lay out this process out so you understand that it takes, from RFP to full rate recovery, about two to five years.

(Slide 28) So you can see the progress that we're making here in executing on our growth strategy. We've put out here the customer additions from organic growth and closed acquisitions in both the water and wastewater side. So let me start with organic growth. Organic growth, our new metered customers within our existing franchise areas.

Over the last three years we've added about 12,000 customers per year just in organic growth in the states where we operate. We also. And you can see in green here, you can see the progress that we've made in executing on our wastewater strategy. And to us it just makes great sense that we're buying wastewater systems in the areas where we own water systems.

We're already in the communities, we have relationships, we have offices, we have trucks and equipment and training people. So it just makes sense for us that 95% of our business is water and 5% is wastewater that we can execute a strategy to buy wastewater systems. And I think you can see that here. I've included Scranton in here, to get to the 54,943 in 2016. And we're working through a few issues on the Scranton acquisition.

And I think if you look at the growth we try to keep things simple at American Water. 1% to 2% equates to about 30,000 to 60,000 customer additions every year though acquisitions. And we really want to focus on our sweet spot. Over the years prior to 2013, we were acquiring about 5,000 customers on average a year. You can see the difference with the focus on our sweet spot. And our sweet spot is determined to be 5,000 to 30,000 customers. You can look at the list on the right from Target A to Target H.

All of those are opportunities that we're working in our footprint across the 16 states. And they are all in our sweet spot, the 5,000 to 30,000 customers. And water and wastewater are mixed in there. So over 145,000 customer opportunities in development. Our state leadership teams are the main drivers. Mark is going to talk about his role in driving these acquisitions. And Mark does a tremendous job in being a resource for the states.

The states are all out having discussions with municipalities that maybe have a consent order, that maybe they're in need of financial assistance. So we can jump in, buy the systems. And meet their needs. And integrate those systems into American Water and take advantage of our capital for investing in those systems. And our expertise in running those systems.

(Slide 29) And so I talked a lot today about a lot of things. Let me just take you through some of the key points. The regulated business is well positioned to continue to invest, earn on that investment. And to grow our business through acquisitions. We're going to be investing about $5.9 billion over the next five years in our core regulated utilities. And there are many, many more needs there but we've got to balance that with the impact on customers. And you can see that we're at about 2.5% on average, every year, 2.5% increase on customer bills with the exclusion of California.

We're going to be investing a range of $600 million to $1.2 billion to acquire systems within our existing franchise areas. And we're well positioned to do that because we've got a focus and we've got great team out there that's executing on our growth strategy. We're going to continue to pursue constructive regulatory mechanisms to get a timely recovery on the investment. And also to enable acquisitions to happen. So we've made great progress so far in both of those. But we're going to continue to drive those enabling legislation to help us do both of those. And as you heard we have tremendous people in this business.

We're going to leverage technology to enhance customer experience. We're changing the mindset that if customers can choose us, they will choose us. And we're going to drive that forward because we have a great team and I think you've seen over the years that we have a track record of execution in this business. When we say we're going to do something, we do it.

And it's really because of the state president and leadership team and all the support functions that are working together as a team to drive value for our organization. So I'm proud of where we are, where we've been. I'm very confident going forward that we're going to be developing this business and doing things that'll make all of us proud.

So I'm a little bit ahead of schedule. I know we have a 15 minute break. So if you would be back in 15 minutes, we're going to show the next video. So I know you don't want to miss that. So thanks everybody for your attention, I appreciate it. (Applause)

Linda Sullivan {BIO 7300156 <GO>}

Thank you, everyone. Here is our second tie for first place for the Tap into Talent. Enjoy. (Video Playing) (Applause)

I'll tell you what, we had such a great time judging this from the executive leadership team had judging these. And you can see why there were two winners. We just couldn't choose between these two. They are both just absolutely fantastic. This next section that we're going to go through is a panel on our market-based businesses.

I have joining me today Deb Degillio, our President of American Water Enterprises and Dan Dalton, our President and CEO of Keystone Clearwater Solutions. The way we're going to do this panel today is that I will talk for just a couple of minutes about the strategic overly of our market-based businesses. And then we will have five minutes each for Deb and Dan to talk about their businesses. And then we're going to have some Q&A where I will ask them some of the tough questions that you all ask about our market-based businesses and then we'll open up to the floor for you to ask additional questions.

With that, let me start with an overlay. And overlay of our market-based businesses. All market-based businesses, as Susan mentioned earlier, represent in our five year plan about 10% to 15% of our earnings per share in our five year plan through 2021. In our growth triangle, that represents on a compound annual growth rate perspective about 2% of our 7% to10% growth. And these businesses are complementary businesses to our regulated business.

They leverage the core competencies that we have across our business and they also have an opportunity for significant growth potential and they're capital light businesses. We also look at these businesses as providing strategies for us to be able. And good relationships to be able to grow not only our market-based businesses but also to provide a platform for growth for our regulated businesses. We've also seen over time that the market-based businesses provide a great opportunity for us to attract talent and retain talent. And in fact, when you look at Deb and Dan, they are a great representation of the bench strength of talent that we have at American Water.

Deb has been in her role as President of American Water Enterprises since June 1 of this year. And Deb has a long history with us at American Water, she's been with us for about 10 years at American Water. 20 years experience in this industry. Many of you may have met Deb in her prior role as our Vice President and Treasurer of American Water. She has been with our Company 10 years, she's had progressive leadership roles throughout the Company. And we are absolutely delighted to have someone with her skill set and caliber to run our market-based businesses on the AWE side.

Dan Dalton, who has been in his role as our President and CEO of Keystone Clearwater Solutions, he has been enrolled since December 1. Now, he has been preparing for this role for quite some time prior to this new role, he was our Chief Operating Officer of Keystone Clearwater Solutions. And Dan has been with Keystone since its inception.

His career has grown alongside the career, or alongside Keystone. He knows this industry very well and he knows Keystone forward and backward. We are absolutely delighted to have him step up and take the helm of Keystone Clearwater Solutions. With that, let me hand it over to Deb to walk through AWE.

Deb Degillio {BIO 19077400 <GO>}

Thanks Linda. Good afternoon everyone. I'm first going to talk a little bit about what AWE is, what businesses we have. And then I'll talk a little bit about how we're going to grow over the next five years. Again, some of you might be familiar with American Water Enterprises. But for those of you that are not, Linda mentioned that we have minimal capital investment. Like to call ourselves capital light. And really we have grown historically all three of our businesses with very little investment. So that's really a great thing for American Water.

When you look at our businesses, we have homeowner services, which is our warranty business. We provide water lines, sewer lines and another protection plans to homeowners, predominantly residential homeowners, in our footprint and across the United States. We also have key partnerships with cities across the US, most notably New York. So if any of you live in the five boroughs of New York, you can buy our products. And the DEP will actually put our services directly on your bill. It's been a fantastic partnership with the DEP. They saw the need for their customers just like we did for our regulated footprint. So if any of you want to sign up that happen to live in the boroughs, go ahead and sign up, we'd love to provide you a great service.

Contract services is our second business. It's actually providing O&M services. We have about 40 industrial and municipal customers across the US and in Ontario, Canada. We provide everything from operating a wastewater plant or water plant to providing billing and meter reading and customer service. We have a lot of different products and services that we offer our clients in contract services.

Military services, I think you are all aware, we have -- we own -- we operate 12 military bases, domestic military bases where we have 50 year contracts and we provide the water and wastewater services, we maintain and operate the systems on base for a 50 year contract. Now the important part is how we're going to grow. In terms of our strategy, I'm going to start with military services.

The way that we grow military services is by two ways. One is we acquire new bases. And we have right now eight open RFPs that equate to $260 million to $380 million of contract revenue over the 50 year term. We expect an additional 33 spaces that would be in the area where we would respond to the RFP to be coming in the next couple of years. And those actually represent an additional $1.2 billion to $1.6 billion revenue over the life of the 50 year contract. That's how we grow in military services and very robust pipeline for new bases for us to serve.

The second way is through once we operate on a base, we provide infrastructure projects. Similar to what Walter talked about earlier in terms of the need in the regulated footprint for infrastructure investments, we see the same thing we operate a military base. The infrastructure has a lot of need for investments. And so we work with our bases and identify capital projects where we do design, the engineering. And we outsource the construction. And so that is a way that we call infrastructure projects, which is the second way that we grow on our existing 12 bases and then obviously when we add new bases, give us the opportunity to grow there.

Homeowner services is the way that expand and grow in homeowners and we've been growing in both military and homeowner services significantly over the past five years. Homeowner services has grown over 9% net income CAGR over the last five years. In homeowners we add -- it's very simple, we add new customers.

We do that, again, through partnerships like with DEP, we do that through marketing and geographic expansion we operate across the US. And we also add new products. We see that once a customer buys a product from us, they actually are a customer that likes other warranty programs. So we have -- a lot of our customers have more than one product.

Next is contract services. Contract services group is, again, we want targeted O&M growth. What we see here is more of a strategic play for American Water where we actually have a service that provides us a strategic advantage. And a good example of that is our desalination plant in Tampa. Second, if we have a strategic customer. And you see a great example of that in Camden where we operate -- have an O&M agreement with the city of Camden. And Kevin operates the other half of Camden.

We actually split the city, half of it is regulated. And half of it is served by us in CSG. We are not looking to have CSG grow substantially, it's really more of a strategic hold for us, again, where it provides us a service or a product that we want to look to invest in and also where it makes sense for our customers. Now I'll turn it over to Dan.

Dan Dalton {BIO 19914705 <GO>}

Thanks, Deb. Good afternoon, everybody, it is a pleasure to be here today on behalf of Keystone Clearwater Solutions. It's no secret that 2016 has been challenging year for the energy sector as a whole. But fortunately Keystone has weathered the storm, the downturn. We've taken many steps to strengthen our Company throughout the year. And we're well-positioned for future growth and the market recovery.

I want to talk about our business a little bit today and some of the key drivers that we monitor closely in our business. First being natural gas price, the second rig count and the third well completion activity within the Appalachian Basin. The Appalachian Basin, primarily the Marcellus and the Utica shales. Natural gas prices early in 2016 were below $2, the rig count had fallen to approximately 20 rigs operating in the Marcellus and Utica shales. And well completion activity was either suspended or drastically reduced from the prior year. Since then we've seen material improvements in market conditions.

In the Fourth Quarter of 2016, natural gas prices have rebounded to about $3.50 the rig count has increased from, like I said, 20 rigs operating in basin to near 50 today. And well completion activity in the Fourth Quarter has drastically improved and we're hearing strong completion schedules from many exploration and production companies moving into 2017. During this challenging time Keystone was actually able to increase its market share by offering competitive pricing while continuing to offer superior total water management solutions to the Appalachian Basin. This is something we take great pride in. We've increased our market share from approximately 25% to 30% to today about 35% for the core business of water transfer services. We take great pride in this.

We are heavily focused in the Appalachian Basin, like I mentioned earlier, that's the Marcellus and the Utica shale. And if you look at this graph you'll see that approximately 50% of all the dry gas production the United States is coming out of the Marcellus and the Utica and Appalachian Basin. We are in the right play.

Now I'll talk a little bit about our strategy for growth. We have three prime main strategies for growth at Keystone Clearwater for 2017 and beyond. First is our core business expansion. We want to increase our wallet and market share with our clients in the Appalachian Basin. Currently Keystone does not conduct 1% any of their core clients in the Appalachian Basin. There's definitely room for growth there.

Second market share. There are several clients EMP companies in the Appalachian Basin that we are actively targeting that have robust completion schedules for 2017 that we have a strategy to obtain. Our next avenue for growth is municipal services. This is something I'm very excited about, it's a new business diversification initiative that our company is taking on in 2016.

Leveraging our core competencies of water transfer and water pipeline construction to offer to municipalities in the Northeast United States, including American Water's regulated and Deb's market-based businesses where we will bypass pumping, pipeline construction, water treatment, water storage and emergency response. And we've actually supported American Water with emergency response earlier this year. We're very excited about this new business offering and it's going to help us decrease our sole dependence on the Appalachian oil and gas market.

Our third avenue for growth is our asset ownership offering. We have developed an attractive model where we purchase water infrastructure, pipeline infrastructure from exploration production companies. This does two things. One, it decreases their capital needs so we can redeploy their capital back into producing oil and gas, which is their prime objective. And two, it allows Keystone to obtain long-term contracts where we will operate and own the pipeline, which leads to additional business for our core services of water transfer, water pipeline construction and our transportation services. These are our three strategies to growth, we believe they will provide a solid platform of growth in 2017 and into the future.

Linda Sullivan {BIO 7300156 <GO>}

Excellent, thank you. Let's move to the Q&A portion.

Questions And Answers

A - Linda Sullivan {BIO 7300156 <GO>}

Deb, we have been talking about the headwinds in the Military Services Group all year. What is your outlook for the Military Services Group? Do you expect these headwinds to continue into 2017 and beyond? How do you think about growth in the Military Services Group? And also with the change in presidential administration, can you tell us about how you think about that for the military services?

A - Deb Degillio {BIO 19077400 <GO>}

Sure, Linda. Looking at MSG, we talked about earlier how we have, really, two different ways that we earn money. For us, the core O&M of operating and maintaining the bases; that's pretty stable. We operate at 50-year contract. We get regular price redeterminations, or economic increases and so that is very stable. No risk -- I mean, I shouldn't say no risk. Low risk and again, I don't see any softness in that space because we've got 50-year contracts.

Where we did some headwinds in 2017 -- 2016 and continuing into 2017 is on the infrastructure projects. It's not around demand for capital investments. When you look across our bases, in 2016, we identified needs of over $500 million of projects at 12 existing basis. This -- like walter talked about balancing the impact on customers, we identified a lot of projects. The challenge is the government hasn't been spending as much money.

When you think the Department of Defense. And looking at how they spend their money, we are not only competing with other infrastructure projects at all of the domestic bases, we're also competing with any other investments in planes, tanks, you name it. So that's really what has been causing the headwinds for us in the Military Services Group.

We do see that continuing in 2017; however, to answer your second question with the change of administration, Susan talked about it earlier. We are optimistic. We don't have it baked into our forecast any recovery in 2017; however, there is a possibility that there is some loosening in terms of Department of Defense spend and we're poised to take advantage of that.

When will that translate into net income for us? It depends on when actually the loosening is and where the government -- where the DoD decides to spend that investment. But we're ready with those shovel-ready product -- projects so that if and when the loosening occurs, we will be ready to do the investments and do the capital work.

A - Linda Sullivan {BIO 7300156 <GO>}

Thank you, Deb. And Dan, for Keystone? We also faced headwinds in 2016. You talked a bit about the market picking up in 2017. What gives you the confidence that 2017 is going to look different? And how do you think that the potential impact for the change of administration could impact your business?

A - Dan Dalton {BIO 19914705 <GO>}

Sure, sure. I'm glad you're asking me that question now instead of six months ago

Like I had stated, the rig count has increased in the Appalachian Basin to about 50 rigs; natural gas price is around $3.50. The completion activity that our Company has seen in the Fourth Quarter and the projections going to 2017 are improved from this year. That gives us great confidence in market recovery.

Energy Information Administration has recently forecasted that natural gas, average natural gas market production in 2016 would be around 77.5 billion cubic feet per day. That's 1.3 billion cubic feet Bcf down from 2015; however, they are projecting an increase of about 2.5 Bcf going into 2017. So that's very positive.

Along with that, domestic consumption is increasing. Exports to Mexico as well as LNG exports are increasing and that is helping drive and contribute to the Henry Hub price average in 2016 which was about $2.47 -- $2.49 to about $3.27 in 2017. So that's very positive.

Along with that, OPEC has recently announced they're going to decrease production which should be positive for pricing in the United States as well as domestic drilling and completion activities. Along those lines, in the Appalachian Basin specifically, we have seen a number of drilled but uncompleted wells that have been sitting in inventory. That number has been drastically reduced in 2016. So that's a positive sign for increased drilling moving forward.

Along with that, what gives us a lot of confidence is our diversification initiative into the municipal services market supporting, like I said, American Water and other municipalities in the Northeast United States. We believe that leverages our core competencies and we are well-situated to diversify our business in that fashion. So those things give us great confidence that the market is recovering and allowing us to forecast Keystone to be accretive to earnings in 2017. As far as the election, it's a little too early to tell but we're very positive about the election here in Keystone.

It should be a positive for the energy sector as well as Keystone. They have called for more increased drilling and completion activity, less restriction on pipelines and other regulations that should promote and facilitate a friendlier environment for the exploration and production companies in the United States. We believe it will very positive for the energy sector and for Keystone as a whole.

A - Linda Sullivan {BIO 7300156 <GO>}

Thank you, Dan. Deb, switching to Homeowner Services. Homeowner Services has had a significant amount of growth since its inception. Do you see that growth continuing and what are the key risks in that business and what are you worried about in that business?

A - Deb Degillio {BIO 19077400 <GO>}

Sure. So I see huge growth in HOS potential. When you look, there's -- if you -- based on the census, there is 67 billion households across -- million households across the US, single-family homes. We only -- we estimate that only 5% of those homes have water line and sewer line protection plans. So that says the market is really untapped in terms of buying warranties, programs for water lines and sewer lines. So really, we see a lot of runway in terms of market, which is great.

We also see a lot of opportunity for partnerships. We closed on or started new deals with partnerships that represent 260,000 connections in 2016 and we see a lot of pipeline for new partnerships with municipalities and with other utilities into 2017 and beyond. So those two things really give me a lot of confidence in terms of our future growth in Homeowner Services.

Switching gears to the risk. The biggest risk in terms of financials for Homeowner Services is claims expense. For claims, it is absolutely the largest expense line item for Homeowner Services and how we manage claims really boils down to its frequency, meaning how many claims you have. And severity, meaning how expensive that claim is.

Frequency, we look at our terms and conditions so we don't cover things like natural disasters. We also look at pre-existing conditions not covering that and then in terms of severity, we have like in New York, we have actually two master plumbers that go around and spot-check claims to make sure that our plumber network is being fair. So that they are not saying a claim requires this amount of replacement at this dollar.

We're watching them if that makes sense. We also have a very robust pipeline of contractors across the US that provide our services to us that allows us to get good pricing with our contractor network and they do a great job for us across the US.

A - Linda Sullivan {BIO 7300156 <GO>}

Thank you, Deb. So Dan, you've been part of the American Water family for almost a year-and-a-half now. Can you talk a little bit about how that has impacted your business, both good and bad?

A - Dan Dalton {BIO 19914705 <GO>}

Sure. No bad

It's been very positive for Keystone Clearwater in 2016. It's helped us. The name recognition alone has helped us open new doors with exploration and production companies that we had not worked for; that's been very positive. They have been essential in helping us increase our market share to about 35% for our core service in 2016.

They've been influential in helping us, having the opportunity to bid work in our Municipal Services Group diversification initiative, where we have competitively bid and won work for Deb's Military Services Group, among others, which we're very proud of and we believe that we have a solid platform for growth there. We've adopted many of the processes that American Water has that makes them a great company into Keystone Clearwater and it has truly made us a stronger company in 2016. So yes, the ownership of American Water has been very positive to Keystone Clearwater this year.

A - Linda Sullivan {BIO 7300156 <GO>}

Thank you, Dan. Let me open it up to questions from all of you. There's microphones in the back if you could stand.

Q - Unidentified Participant

The question is on the returns for each of the market-based businesses. If you could just give me an idea relative to your regulated businesses the returns and the volatility of the returns for each of these?

A - Deb Degillio {BIO 19077400 <GO>}

Absolutely. That's a great question. We get that question, really, all of the time. The way that these are extremely competitive businesses. The way that we look at the returns on these businesses are, really, risk-adjusted returns. When you look at, for example, our Military Services Group, these -- the risk profile of the military services contracts, 50-year contracts backed by the US government, capital-light contracts.

These are really regulated like in their risk profile and we would expect that the returns would be commensurate with that type of risk. And we do the same type of analysis for our Homeowner Services Group and Keystone.

A - Linda Sullivan {BIO 7300156 <GO>}

So we don't disclose the actual numbers but that's how we think about it. Good try.

Q - Unidentified Participant

A question for Dan. I wondered if you could speak more slowly and tell me what municipal services and asset ownership, what those are? I think I heard you say that you're actually buying water pipelines from E&P companies. Then what you do with it? Because it's not regulated.

What do you do with it after you purchase it? Is there -- how do you contract that? How -- what do the cash flows look like from that asset purchase and how much do you spend on that kind of thing? Then Municipal Services, I don't understand what that is.

A - Dan Dalton {BIO 19914705 <GO>}

Sure. I'll start with Municipal Services. So we are, like I said, leveraging our core competencies of water transfer pumping piping to support municipal markets. Building pipelines, water pipelines, temporary pump bypass, emergency response services, water storage solutions. And we've done even some water treatment solutions for American Water. As far as the --

Q - Unidentified Participant

So those are unregulated infrastructure?

A - Dan Dalton {BIO 19914705 <GO>}

Everything has been on the market-based side as far as the bidding at this time. But we are working on affiliated state agreements for the regulated side. We have the ability to support them in emergency.

Q - Unidentified Participant

So how do you -- do you sign contracts with municipalities? I'm just wondering what the revenue stream and return profile looks like?

A - Dan Dalton {BIO 19914705 <GO>}

There are contracts we bidded just like any other service contractor that they currently hire to do the work. Then we do it at a projected return.

Q - Unidentified Participant

Then the asset ownership?

A - Dan Dalton {BIO 19914705 <GO>}

So the asset ownership. So these are long-term contracts, typically about five years where we -- essentially, it's a rental. We have a -- we get paid rent for about five years on the agreements that we have closed in 2016 and we have the ability to operate and maintain the systems where we charge our normal water transfer rates to the exploration and production companies to operate them.

Q - Unidentified Participant

So when they stop producing in that region or at that particular well, then are you left with a stranded asset?

A - Dan Dalton {BIO 19914705 <GO>}

Well we realize the full return in the time of the contract of five years. That's how we structure them.

Q - Unidentified Participant

Okay. Thank you.

A - Deb Degillio {BIO 19077400 <GO>}

Leslie, what we do is make sure that we have contracts that are backing up these pipelines so that we're not having those stranded assets.

A - Dan Dalton {BIO 19914705 <GO>}

I will also add that there's -- most of the contracts may only have a five-year life but the runway in that basin or in that developmental area is 15 to 20 years. So there's a useful life even after that.

Q - Unidentified Participant

A question for Dan. It involves the policies and practices on water procurement and treatment of produced and flowback water afterward. I'm aware of the coalition forces sustainable shale development. I believe your company has been involved in American Water from inception. It has very strict standards for operating wells, including, I believe, a total recycling of the water.

This all looks good on paper but what is actually happening? Is there penetration of those standards that the coalition has set up or other standards higher than federal and the three states involved? And is that playing into a larger opportunity for you?

A - Dan Dalton {BIO 19914705 <GO>}

Keystone currently is not involved with any of the treatment or disposal of the flowback or the production water. So the process that we witness every day in the course of our normal business is the primary method right now for dealing with production and flowback water is recycling. They are taking water from one well -- or one producing well and recycling and reusing it down the next hole. That is the number one approach.

Companies have begun to share their fluids between one another where one time they would take it to a disposal facility, maybe even a deep well injection disposal well and today, they are actually storing it and sharing to others when they don't have an active completion program. So that activity is what is predominant in the Appalachian Basin. I can't speak to other plays throughout the United States. But that's what we are seeing every day. Keystone does not take ownership of the water. We transport it, we pipe it, we pump it and we work it back to the energy company. Does that answer your question?

A - Deb Degillio {BIO 19077400 <GO>}

Excellent. Thank you for -- we can take one more.

Q - Unidentified Participant

(inaudible)

A - Deb Degillio {BIO 19077400 <GO>}

I'm sorry. I didn't hear your question.

A - Dan Dalton {BIO 19914705 <GO>}

I can answer that

His question was how much do you have invested in pipelines?

A - Deb Degillio {BIO 19077400 <GO>}

We have really just begun to look at this business with design, build, own and operate. We have very little invested in capital right now in Keystone. We are looking at additional opportunities. Dan can talk a little bit more about it but we still consider, when you look at the portfolio of our market base businesses, that they will continue to be capital-light.

A - Linda Sullivan {BIO 7300156 <GO>}

And just to add to that, I wasn't sure if I was clear on the infra-structure projects in the military base. That's actually working capital for us but the actual asset, it's not an investment that we make. It doesn't sit on our balance sheet.

Q - Unidentified Participant

(multiple speakers) My question is just on the military bases. So the current ministration has been in for a long time. But it seems like this slowdown just occurred in the last year or so. So could you just clarify what changed more recently than before and what we should be specifically watching from the new administration that would indicate that we're back on track?

A - Deb Degillio {BIO 19077400 <GO>}

That's a good question. So for us, in Military Services, we actually had a lot of factors. The capital infrastructure projects that we do the government, some of them actually are in the initial RFP so when we take over operating a base, sometimes we'll have a suite of capital projects that we're looking to do and that's typically in the first five years of operating a base. So we had some larger capital investments that we were making in some of our bases that we started operating five years ago and they stopped.

Or at least they tapered off of what was in the initial RFP when we got the base period. Then we also had a very large project down at Fort Polk. We installed two water -- wastewater treatment plants. That was a significant amount of investment and that project has been completed in 2016. So really, we have all three things which is we have some -- we had some of the initial capital that was in the bid when we won the base that we've completed.

We had the one large project that's completed and we have the sequestration which is limiting the Department of Defense spent. So for me, looking forward, you should look at, when we get a new base, did it have a large capital program that was included in the RFP?

Then also if there is a loosening of Department of Defense budgets, then you can -- we should expect to see some loosening in some capital dollars flowing our way. No guarantee it depends on the mission, which base the Department of Defense is going to invest in and what are the -- all the other needs across that base in terms of where they are going to invest. But if you see loosening of Department of Defense spending and sequestration, then we should -- that should translate into more opportunities for us.

Q - Unidentified Participant

Thank you.

A - Deb Degillio {BIO 19077400 <GO>}

Thank you, all for your questions. Wonderful questions. In summary, we look at our market-based businesses as being complementary businesses that leverage our core competencies. These are businesses that have significant growth potential yet are capital light. And we also look at them as ways to really attract and retain significant talent like you've seen here today on this panel.

A - Linda Sullivan {BIO 7300156 <GO>}

Thank you very much. Thanks Deb and Dan. Our next section, what we're going to talk about is corporate business development. We get a lot of questions from all of you about how do you think about growing the business in other ways? And how do you think about expanding into other regulated states?

And so we have with us today, Mark Strauss, who is our Senior Vice President of Corporate Strategy and Business Development. He's going to walk us through this process. And Mark is one of the smartest and wittiest people I have ever met in my career. He has been with American Water company for 29 years -- almost 30 years and he has been in a variety of roles.

He started with our American Water Enterprises Group. He actually came in as General Counsel in one of the companies there. We won't hold that against him. He's a recovering General Counsel. But he's been a Chief Operating Officer of those companies, CEO of those companies.

He was the President of AWE before becoming the Senior Vice President of Corporate Strategy and Business Development in 2010. He has a real solid view and knowledge of the water and wastewater industry. So without further ado, please let me introduce Mark Strauss.

A - Mark Strauss {BIO 1650479 <GO>}

Thank you. The only thing worse than having a bad picture of me up here is the realization that it's actually a good picture

All right. So it's, what, 10 after 3:00 PM. You've been here for two hours. I'm up here following really impactful and excellent presentations by some fantastic people from American Water.

And I'm just before Linda is going to come up and give the financial plan and you're going to hear the closing from Susan. I feel a little bit like the kids they sometimes bring out in the seventh inning of the All-Star game to run around bases before while they are doing the groundskeeping. I will do my best to both inform and entertain you. They have limited my slides to try and limit the damage and you can't even see the shock collar that I have on.

In our function -- I'm privileged to lead a small team at the corporate level. And this is in recognition of the fact that the actual growth activity -- most of it is, as you have seen from the prior presentations, done at the business level. The state operations and the reg side all have growth objectives and as you might know from having been familiar with Walter, he is not lackadaisical about them delivering on those goals.

The same goes for AWE, where each business has its own embedded business development. But there are certain things that are more efficiently done at the corporate level. Within our small team, we -- some of the things we perform and I'll walk through on the slides. Some of the things we do are to lead in certain respects.

A lot of we do is to support and then we have a bit of governance that we do for the Company as well. So internal controls support. So when you think about it, doing primary research, looking at industry trends and what our competitors are doing, that's something most efficiently done at the center. And even in that, we work cooperatively with the business.

What are they seeing out there. And we try to collect that information and it's almost -- it's fascinating, because it's like almost like being in the Military Industrial Business -- I mean, -- excuse me, the Military Intelligence Business, in that you're collecting bits from all different places and you're trying to assemble this mosaic and what's it telling you about where the market is going and what are the other competitors in that market thinking how are they performing.

Another aspect of what we do at the center is to take a look at the other IOUs, whether they be publicly held or privately held. And obviously, as you all know, there's not a huge universe of those. But we -- it gives the opportunity to do pretty much in-depth examination and so it's not just looking at them as competitor. But it's to position ourselves because if something comes to market, do we want to make a run at it? And if so, we get -- try to pre-position the thinking so that we're not saying, well, we didn't even know about the company or we don't know a lot about who they are or how they perform.

We are ready to be able to take advantage of opportunities. So we call it being strategically opportunistic. There are no hostile takeovers in this industry. So we're not going out there, making tender offers. It's just being prepared and being ready. Then we also on -- in American Water, we do have an annual strategic planning cycle and what we try to do is run it slightly ahead on the calendar, slightly ahead of the business planning cycle and it's across the business.

At the corporate level, what we do is try to create the matrix. We try to create templates. We try to create the structure. And work with the businesses as they walk through that. So in an individual state, we'll have the opportunity to look at what their markets looks like, what are the drivers of the industry in their state? What is the -- what are wastewater cycle needs going to be create opportunities or threats?

Then we collate all of the information and bring it back to the ELT, again, presentations by the states and lines of business and the functions to the ELT and from that, the ELT can then say, okay, look, we have seen a lot of information here and from those, we think these certain smaller subset are the things that should be baked into the business plan for the coming year, or the coming years.

That is how we develop our shell strategy and we're working on some others in that regard, too. So I just want to emphasize, a lot of the new ideas are bubbling up from the business. We are not so arrogant to think that because we sit at the center of the business, from a structural standpoint, that we've got all the wisdom in the world.

It's a lot of what you learn is to listen to what goes on in the business. You've seen folks like Kevin and others. There are smart people out there; they know what they're doing and they know what's going on out there and they know what the customer needs are. So that's a huge, huge advantage for us.

There's a -- one of the things on the slide says we provide leadership and modeling on major transactions. Now unless you decide you want to short the stock because you think I'm modeling the transactions, what we do is we work with finance and we -- a model is only as good as the inputs. So what we do is we work with the business and we try to assemble as much information as we can in the early stage and provide that to finance, the Corporate Finance Group that Jen leads to try and make sure that our models are sound.

And we also do some testing, whether it's reverse balance sheet, reverse P&L, to test things and see how we can best position ourselves as we look at different opportunities. On major M&A,

whether it be an acquisition of a company like Keystone or it's Scranton or McKeesport, some of the larger reg acquisitions, we support the states.

If they have -- we're finding more and more, some of these principalities are actually seeking out bankers, ibankers as advisory firms and we are more used to interacting with them and the business so the business can focus on the operational aspects, the state regulatory aspects and we can manage some of the other components of putting together a winning strategy, winning the bid and then implementing the final due diligence through to closing.

And that then gets over to the support the state subsidiaries with guidance and expertise. One thing that is hidden. But you don't really think about is when you acquire a major system, whether -- and I guess I should say whether it's a system, a business or whatever, you have to integrate it into your business.

And it's something that we've come to appreciate. As Walter showed you that slide, we've gone from 6,000 customers a year in acquisition -- by the way, 2012 was the year after I got this job. So I keep reminding Walter that those spike in numbers is because I happen to be here. It's a complete lie but why not take advantage of it?

But the successful acquisition and integration is huge and we define success, does the customer have any adverse results from our acquisition, okay? The customer should actually have a better day because American Water is there and that is a -- one of the things as we approach potential deals, one of the real serious things -- one of our primary considerations is, if we own this asset,, if we own this system, if we have these folks as customers, are they going to have a better day with us than they would from where they are now or with something else?

That base -- two things positions us best to be competitive and number two, that we want those customers to be happy they came to us, all right? So as we think about how we integrate, we work very hard behind the scenes with the Company, the state or the operating company will be focused on the operational aspects, the local regulations. We're trying to -- we are -- we have a team in our function that works across the back-office functions in American Water to make sure that the billing will go out on time and be accurate.

That the other aspects are down the website will now show them as part of American Water, all those little details that you might think, well, billing, obviously, is huge issue but all those details that customer should be able to say, yes, I feel like I'm one of the family from the day that the closing takes place. That is our objective. We have metrics that we're measured against on that and again, as you might think Walter and Susan, Linda and others pay close attention to those. We stick to that knitting very closely.

Then finally, our governance function is we have a deliberate process where projects are reviewed through a, what we call, the CDC process -- the Commercial and Development Committee. What happens is depending on the size of the project, it either goes to a state CDC for certain projects or business lines but the larger ones all come up to a national committee.

And no acquisition or disposition, no major contract is to be made without those projects being reviewed and one of our missions is to make sure they are reviewed, that the information provided is accurate and that we keep a record of that. So that we have a -- we can track that through and make sure everybody understands it and we also provide guidance. We don't want to be a guessing game. We keep businesses informed about how -- and we listen to them. Some of the requirements that used to be in the CDC process were not real value-added. We stripped those out.

We have changed some formats. We've added some information so that they can be more effective. We work with the business so that we can demonstrate that we have a rigorous process but it's not like we make it a torture chamber where you have to pass through this to get a deal done. Now, one thing that we do as part of our larger leadership is to look out and say, where are we not now that American Water regulated operations might want to be?

I personally have advocated for the (Caribbean) and committed to going down there personally for long-term due diligence; it was not accepted by the ELT. So we have a matrix that we screen states against on the ongoing basis. I'm not going to stand up here and tell you which state or states we are currently taking a hard look at.

But I want you to know that we have a very disciplined process for doing that. We understand that our shareholder is buying a utility stock. They have a certain risk-reward expectation and it is better for us to not do certain transactions or enter a given state then to be able to say, I did a deal.

That is not something that our shareholder would appreciate. As we look at different factors in the state. And I should probably advance the slide. We look at the regulatory climate. What are the policies and practices and procedures that, that given state might have for recovery? Did they have districts? Do they have forward-looking test years? That also includes what are their environmental regulations like?

And this might be a little counterintuitive but we don't look for really lax environmental regulations. Because our expertise is being able to meet strict standards. So that is something that we keep an eye on. Is there a need for our expertise in that given jurisdiction?

The other -- next thing is the business climate. Is it a state that is well -- friendly disposed in a friendly way towards private ownership of assets like this? Is it generally one with a thriving business climate so that we can look towards growth, both in population and in the business community itself? We don't want to go plant our flag in a state where it's going to be stagnant or going to a downward curve.

Finally, even if we clear those other bars, we have to say, okay, we see a way to enter this state so that we can get to 50,000 customers within five years? The reason for that is, I could probably get us into a number of states, buying 500 or 1,000 customer systems. And then what have you done? You've created all of the overhead of getting rates done. And running an operation of keeping your people supported with not much of a customer base and you have all the disadvantages of small-scale.

Any bump in the road in terms of having to make a repair or investment is going to drive your rates way up. So we set the bar at 50,000 customers figure and that gives you a strategic depth in that given jurisdiction so that your customers will benefit from our presence and that we don't burden too much overhead on the small number of customers. I think without doing any damage, I am completed. Thank you very much.

A - Linda Sullivan {BIO 7300156 <GO>}

Thank you, Mark. You have heard a lot so far today. You have heard Susan talk about our success cycle. You've heard the customer panel where our goal is to where if customers could -- have a choice, they would choose us. You heard also Walter talk about our multi-decade-long need for infrastructure investment in the water and wastewater industry and the highly fragmented market in which we operate which provides us additional growth opportunities.

You've heard the panel on our market-based businesses that provide significant growth opportunity and complementary businesses that are capital-light and leverage our core competencies. Then you just heard Mark talk about how we think about new strategic opportunities in the disciplined process that we go through when we look at those opportunities.

When I'm going to now is talk about how that all wraps up into our financial plan. What you are going to hear me say during this section of the presentation is really what is on this slide, in that, we are one of the fastest-growing utilities in the nation. If you look at us in terms of our long-term earnings per share compound annual growth of 7% to 10%; that is based upon an anchor of 2015 earnings.

We are primarily regulated risk profile. Over this period through 2021, we look at our regulated businesses contributing 85% to 90% of our earnings. We have decades of investments. And as I mentioned and as Walter talked about, we also have the opportunity for additional growth because of the fragmentation of our market.

We have a strong balance sheet and cash flow that will allow us to finance our long-term plan without the need to issue additional equity under normal operating conditions. We have been a top leader in dividend growth. And looking forward, we look to continue to grow our dividend, in line with our earnings-per-share growth 7% to 10%.

And we have a target payout ratio of 50% to 60%. And you put all that together. And you look at the performance that we've had at American Water from the time that we went to our IPO in 2008 through November of this year, we have provided superior total shareholder return when you compare us to the Dow Jones Utility average, the S&P 500 and our water utility peers.

So let me walk through each of these items one at a time. First of all, when we look at our earnings, as Susan mentioned, we are affirming our 2016 earnings guidance. You may recall that in the Third Quarter earnings call, we narrowed our earnings guidance into the top end of our prior guidance range plus $0.01. And this non-GAAP guidance is $2.81 to $2.86 per share.

That excludes the $0.22 charge that we took in the Third Quarter related to the Freedom Industries Global Agreement in principle. Including that $0.22, we would have revised guidance of $2.59 to $2.64 on a GAAP basis for 2016.

Looking forward to 2017, we're setting forth earnings guidance today in the range of $2.98 to $3.08 per share. When you look at that compared to the midpoint of last year, it -- that represents an 8% growth rate over the midpoint of our original 2016 guidance and about a 7% growth over the midpoint of our 2016 revised non-GAAP guidance.

Now included in our range of earnings for 2017, our normal fluctuations and variances that I've included in the appendix of your materials today. But the biggest item that is included in our earnings guidance range that could vary is with regard to weather. We consider plus or minus $0.07 per share to be normal weather fluctuations that are included in our earnings guidance range.

We've also laid out other normal variations by business segment. Earnings outside of those ranges or variants outside of those ranges could cause our results to differ. Looking forward, we continue to see EPS compound annual growth rate of 7% to 10% over the next five years through 2021.

And we have moved our anchor from our 2014 adjusted earnings which was $2.43 per share to our 2015 anchor of $2.64 per share. So we continue to raise the bar upon which we calculate our 7% to 10% compound annual growth rate. That's really why we have the confidence to say we're one of the fast-growing utilities in the nation when it comes to compound annual growth of our earnings per share.

We will continue to predominantly be a regulated risk profile. When you look at where we think we're going to end the year in 2016, our regulated business will represent about 90% of our earnings when you exclude the parent costs. When you roll that forward and even with the significant growth opportunities that we have in our market-based businesses, we continue to see the regulated business representing 85% of our earnings in 2021.

So we continue to be predominantly a regulated risk profile. And within that regulated risk profile, we also have some unique characteristics from a risk perspective. We have geographic -- we operate in 16 regulated states. So we have geographic and regulatory diversity. And Walter talked about over the last couple years, we have also seen weather diversity.

We have decades of capital investment needs. And we have mechanisms that allow us to continue to collect on a more accelerated basis, our infrastructure investment. We have a smooth deployment of capital in the water industry. When you look at the -- at our portfolio of infrastructure investments, a $25 million project in the water industry is considered a big project.

And it comes to Walter and I for final approval if it exceeds $25 million and we get about 10 of those a year. Very smooth deployment of capital. We have also seen now in six of our states that we have fair market value type legislation for acquisitions. This brings from a risk profile, an independent valuation methodology to the business.

On the market-based business side, we also see some unique risk characteristics. We have a portfolio now of four businesses that operate in diverse markets. I've mentioned several times these are capital-light businesses and even with the future capital upgrades that we make on the military bases, these are working capital only.

And the design build and operate for the Keystone business, these are under contracts; shorter-term contracts but longer-term in terms of the Keystone contracts. We have significant opportunities for growth, again, leveraging our core competencies in these businesses. And they also provide us the ability to attract and retain talent.

Three of the individuals that spoke today were -- started in our American Water Enterprises Company. Doug Brand, who is on our customer panel, started at American Water Enterprises. Mark Strauss, who you just heard from on our corporate strategy and business development side, really ran American Water Enterprises. And Walter Lynch came from our American Water Enterprise Company.

Let me now switch to our capital plan. Over the next five years, we have a capital plan in the range of $6.7 billion to $7.3 billion. For our regulated and system investments. And I'll walk through each of the items on the waterfall. For our regulated system investment, we are looking at $5.9 billion of investment over the next five years. And Walter talked a lot about this.

These are the investments that we are making to ensure that we provide safe, clean, reliable and affordable services water and wastewater services to our customers. This represents a $400 million increase from our last five-year capital plan. And that increase is primarily to address some of the critical infrastructure needs that we see such as the lead service lines that Walter talked about and also, because we are able to accelerate some capital associated with bonus depreciation. That $5.9 billion of capital translates into the bottom part of our growth triangle of 4% to 6% compound annual growth rate in our earnings per share.

The next category of capital is our regulated acquisitions, which we look at that being $600 million to $1.2 billion over this period. In the past, we have put capital here as a placeholder for regulated acquisitions. And now we have included a range of potential spend so that we can increase the transparency of the potential opportunity related to regulated acquisitions.

When we think about regulated acquisitions at American Water, we are uniquely potentially for these opportunities. We can provide economies of scale when we tuck-in these acquisitions. When we look at our drinking water quality, last year, our drinking water quality was 13 times better than the industry average. And so if we have a municipality that wants to sell, with that type of record, they know they can trust us.

We also have the financial strength and the access to capital to be able to make these acquisitions happen. And in fact, we have additional debt capacity under our current credit ratings to do even more and I'm going to talk about that in a few pages.

When we -- and I'm also going to talk a little bit about the financial overlay of the process and timeline that Walter set forth for these regulated acquisitions on the next page. The regulated acquisitions translate into 1% to 2% of our growth triangle of the compound annual growth rate on our growth triangle. And we've seen some momentum in 2016 with regard to these regulated acquisitions.

And so many of you may be sitting there and asking yourselves, well, why don't you increase the 1% to 2% on your compound annual growth rate? I would tell you, we certainly hope that the momentum that we have seen in 2016 continues onto the future but these acquisitions can be lumpy in nature and so right now, we believe it's just too soon to tell but we will continue to be transparent in providing you glimpses into how we see the pipeline coming through for these potential opportunities.

The next section of our capital is our strategic capital which is over $200 million. This really represents the types of activities that Mark Strauss talked about that we set aside the goes through a disciplined financial process for approval. They also represent our corporate headquarters building which we plan to break ground soon. And we would have complete by the end of 2018.

The corporate headquarters will be located in Camden. We're eligible for up to $164 million of tax credits associated with the building. From a cash perspective, those tax credits would flow in over a 10-year period once we take up occupancy and as long as we meet certain metrics. From a book perspective, we will recognize those benefits over the life of the asset under grant accounting, which really matches the economics of what we're trying to do with that building, which is to make it revenue neutral for our regulated customers and earnings neutral for our Company. In 2017, our capital plan is estimated to be $1.5 billion.

So now let me talk a little bit more about the financial overlay of our regulated acquisitions and the process. So Walter talked about we get to all of the local approvals are done and we have a signed agreement ; that's when we begin to disclose it to you as a pending acquisition.

Currently, we have 37,500 customers pending with the Scranton close by year end. We then go through the regulatory approval process. This is the process where we get approval from the public service commission, the public utility commission. And this is approval of acquisition itself, not the economics of the deal that goes through the rate case. Once we receive that -- the regulatory approval, we then go through the financial close.

When an acquisition is closed, it's at that time that we pay the purchase price to the seller and typically, what we do is we finance that purchase price through shorter-term debt at that particular time. We begin to take on the operations. We bring on the customers. We begin to leverage our best -- our back-office systems and then we begin to collect revenue at either the existing rates or one of our existing tariffs depending on the deal.

We then go through the regulatory rate case process for that particular state and when we come out of the rate case process, that is when rate base is authorized. It is when we would then finance the acquisition in accordance with the authorized capital structure within that state and then we would begin to collect revenues at the new authorized rates.

So this varies a little bit depending on each acquisition, both from a process perspective as well as a timeline perspective but what really stays constant through this entire process is the disciplined financial process and the metrics that we use to evaluate these acquisitions to help us ensure that we're providing value for our customers and for our shareholders.

On the next page, I want to talk a little bit about the excess debt capacity or the additional debt capacity that we have under our current credit ratings, that I mentioned on the capital slide. So Walter talked about how we think about regulated acquisitions, how we think about regulated capital and he talked about how we prioritize that capital.

How we drive capital efficiencies so that we can continue to do more with the same amount of dollars. And he talked about how we balance that with the customer rates and that's really how we come up with our capital plan. But if we were to step back and look at this at this from a pure financial standpoint and I've utilized here the (inaudible) to debt metrics that put out by S&P.

From a pure financial standpoint, under our current credit ratings, we could do $1.4 billion more than the top end of our capital range and $2 million more than the low-end of our capital range under our current credit ratings. So to the extent that we see a pick-up in acquisitions -- in regulated acquisitions, we have the financial ability to be able to execute on that and to the extent we get that recovered in rate base, this is really the area to where we can see the biggest impact on rate base and earnings growth.

So that's really a look at our financial plan from a high level. What I want to do now is shift gears a little bit to some of the sensitivities to that financial plan. You heard Susan talk a bit earlier about some of the changes with the new administration. What I want to talk about in terms of those potential changes or actual changes are interest and taxes.

So what we've put together here is a look at how in a rising interest rate environment and under certain assumptions, what that would look like for American Water. What's really important is for me to outline the assumptions that we have used in this model. What we have assumed is that we have a 50 basis point increase in interest rate each year for the next three years.

So 50 basis point increase in 2017, another in 2018, another in 2019 and then it levelizes. We have assumed that we also see O&M costs having an inflation factor of about half that distance, or 25 basis point over that period. We've also assumed that we would recover our interest cost or increase in interest cost in our next rate case and on average, we've assumed that to be about two years.

We've also assumed that our pension discount rate would move by about half the distance of the increase in the interest rates, or 25 basis points. And I've just left the return on assets the same. We've also included in here the key assumption that the allowed ROE would increase by half of the interest rate change and that it would true-up on average in the next rate case which is two years, which is on average two years.

With all of those assumptions, when we look at this chart, this is really the impact that we would see on American Water. And so the zero line is our long-term financial plan. You can see in 2017, we really wouldn't expect much of an impact and there's a couple of things driving that. One is that we would see higher interest rate expense on our new debt but that higher interest expense would be offset by the benefit that we see by a higher discount rate in our pension.

We have also with our debt maturities in 2017, we have over $500 million of debt maturity, about $300 million of that is hedged at about a 4% rate. So not a lot of impact in 2017. But we do see is that the short-term interest drag in a higher interest rate environment or rising interest rate environment will eventually the offset by the recovery of interest cost through our regulatory process and then having the higher ROEs being applied to our full-rate base balance.

Let me now move to taxes. So you'll hear a lot of disclaimers from me. This is an illustrative example of the potential impact of tax reform of which we cannot know what is going to happen with tax reform. But we want to do is really give you a directional view of some of the potential impacts on our business. With all of those disclaimers, what we have been consistently hearing is that if there is tax reform, we've consistently hearing it would be -- could be a decrease in the corporate income tax rate. It could be we have 100% expensing of capital investment or 100% bonus depreciation.

Then we also hear potential loss of certain deductions like the interest deduction. Let me walk through each of those items in isolation and talk about how that could impact our business. On the lower corporate tax rate, in the regulated business, it's pretty clear if you have a lower corporate tax rate, you have lower tax expense and under cost of service rate making and the history, we would expect that to benefit our customers.

That benefit to our customers could provide us a potential opportunity with our multi-decade long need for infrastructure investment to invest even more in our infrastructure and it could also help to make our lower rates competitive we look at our rates compared to others in the industry and municipalities. The flip side of that is with lower tax rates, you get lower cash tax flow coming in the door and we are in a net operating loss position, both federal and state.

Over time and I'm assuming that taxes are normalized in the utility industry and we continue to be but over time, what you would expect is that your rate base would increase because you have a lower tax rate so you have lower deferred tax liabilities that offset rate base. On the market base side and the parent side, the impact is a little bit different. So for the market-based businesses, if you have a lower tax rate, then you have higher earnings.

However, in our Military Services business, we would expect that, that would true-up in the next price redetermination and that true-up would be retroactive to the change in tax law. On the parent side, where the parent is the cost center. If we have a lower tax rate, that means we'd have higher expenses at the parent.

If we just take our non-regulated businesses, as long as the earnings in our market-based businesses outpace the costs at our parent company, it would be a benefit to us and vice versa. For all of our companies, we would remeasure our deferred tax assets and our deferred tax liabilities that are on our balance sheet. So we take them from the current federal tax rate of 35% to whatever the new rate is. For non-regulated companies that flows through your bottom line.

For regulated companies to the extent that normalization continues, you would flow that back to your customers over the life of the asset, or the remaining life of the asset. So normalization will be a very large policy issue for the utility industry to the extent that we see tax reform.

Moving to 100% bonus depreciation. We would expect and this is really the regulated business only because the other businesses are capital-light. We expect that it would grow our federal net operating loss position and the growth in that net operating loss position would likely push out the time until we become a cash tax payer for federal purposes. Then the rate base impact is -- it gets really complicated very quickly.

And it's based on state-by-state analysis and it depends on the net operating losses and the amount of net operating loss by state. So if you have a net operating loss in a state, you've pretty much maxed out your deferred tax liabilities in that state. So you don't have an immediate impact on your rate base. It will impact rate base but this is really about the timing of when it will impact rate base.

Moving on to our loss of tax deductions. For the regulated business, if we have a loss of any type of tax deduction, that would increase tax expense for our regulated customers under cost of service rate making. And what's really interesting is when you start looking at this in combination with a lower corporate tax rate, where if we have a loss of deduction, it could offset any benefit that our customers get from a lower corporate tax rate.

We would expect to have lower earnings at the market base businesses and again, the military contracts would true-up in the next price redetermination and to the extent that we have a loss of parent, it's a cost center. And so we would expect to have an increased loss at the parent. There's a lot of variables here.

Hopefully, this is helped you directionally how this would impact the business. I know many of you have done some excellent write-ups on the utility industry and how potential tax reform could impact us. And hopefully, this is helpful for you.

Let me switch back to our financial plan and the financial strength, both the balance sheet strength and the cash flow that sits behind that financial plan. We have a very strong balance sheet at American Water. We are A-rated by S&P and if you look at all of the utilities in the S&P 500, there's only two that are A-rated. And we are one of them.

Our debt maturity schedule is over the next five years is manageable. The $574 million in 2017, $428 million of that is associated with the higher cost debt that was left over at the parent company from the RWE days. And we've hedged about $300 million of that at about 4%. The remainder of that debt maturity is manageable for us from a business perspective.

Our total debt to capital at the end of 2015 was 56% and looking through our long-term plan at the end of 2021, at the max of our capital plan, we would expect it to be 58% and this -- I should note, this includes both long-term and short-term debt. We also have strong cash flows. When we look forward over this plan, we expect cash flow from operations to grow at a compound annual growth rate of about 7% anchored off of our 2015 cash flow from operations.

I've also included here our federal net operating loss and how that works down over this plan period. Right now, 2015, the end of 2015, we had $1.1 million of net operating losses on the federal side. We expect at the end of 2016, that, that will grow a little bit when we get to the end of the year and then that will begin to be utilized and we would become a cash tax payer in 2021.

When I look at the strong balance sheet and strong cash flow, that is really what has enabled us to finance our capital plan without the need to issue additional equity under normal operating conditions. Those of you who have followed us for a long time know that we have been a top leader in dividend growth and in fact, since 2011, we have grown our dividend on a compound annual growth rate of 10.2%.

Looking forward, we target to grow our dividend in line with our earnings growth and we target our payout ratio of 50% to 60% of our earnings. We are currently in the lower end of that range so we have room for growth. So if I wrap all of this up, we continue to be one of the fastest growing utilities in the nation, with compound annual growth rate of 7% to 10% in earnings per share over the next five years.

We intend to maintain our predominantly regulated risk profile with our market base businesses targeted to represent about 10% to 15% of our earnings. We target to grow our dividend in line with our earnings growth and the target payout ratio of 50% to 60%. We have a strong balance sheet and operating cash flows underlying that plan and if we can do all of that right, we will deliver -- continue to deliver superior shareholder returns. With that, let me hand it back over to Susan.

A - Susan Story {BIO 3335156 <GO>}

We're wrapping up and we'll have time for Q&A at the end. Bottom line, I will tell you right now and of course, I can be totally objective saying this. I would rather be in our shoes at American Water than any other utility that I know. The reason is you've heard a lot of the story today. You've heard about our business. You've heard about our opportunities.

And we really like this chart a lot. When we talk about being a top leader in the utility sector, this is from 2013 to 2016. This doesn't go back to 2010 or 2011 or when we IPO'd. If you look from 2013 to 2016 and 2016 is estimated at consensus by the way. This is all from Bloomberg.

If you look at our EPS growth and how we compare to the UTY, our proxy companies that we have in our proxy, the Dow Jones Utility average or other water utilities, if you look at our dividend growth, we are top quartile, top of the top quartile, we are usually first or second, based on which utilities are increasing their dividends at the time. Then you look at our total shareholder returns since 2013 through the end of 2016 with consensus and this is what you get.

Linda mentioned, too, though, the water quality issue. One of the things and I was talking to a couple of you at break and we were talking about the customer stuff. And you said, sometimes it's hard for those of us in the business we do who do modeling and analysis to get excited about things like that. But I would tell you this.

That when you look at the companies who stumble, many of them have had a series of great quarters of financial performance. What happens is something goes wrong with the culture. Something goes wrong with how they serve their customers. Something goes wrong with a product that is tainted.

The fact of the matter is American Water, we're celebrating 130 years this year. 2016 is our 130th year anniversary. In fact, it was interesting. Tom Farley from the New York Stock Exchange spoke to us earlier. The New York Stock Exchange also began in 1886. And in 1887, American Water joined New York Stock Exchange.

We've been there that long. My point is this. We're not here to try to get great earnings for the four quarters of 2017. It would be nice and we hope that happens and we're working hard to do it. We're here to make sure we have strong, consistent predictable earnings for years. So that the people -- your clients, who have us in their portfolios, don't go to bed worried about what is happening with American Water stock or that you're going to see us on the headlines of a newspaper or that we're going to do something really stupid that doesn't fit with who we are.

I thought about and our team said, every time you go to a meeting, there's -- everybody takes away different things based on the things that are very important to you, or your clients. But we talked about if you can only take two or three things away from this meeting today. If you walk out of here. And you only remember a couple or three things, what we want those things to be?

Number one. And you've only heard it about 100 times in four hours. Industry-leading multi-decade growth. Walter talked about capital efficiency. We do have a couple of members here from the New Jersey BPU. And we would say in front of everybody. We are not out there searching for capital investment opportunities.

That differentiates us a bit from other utilities or other companies. We have lots and lots of investment we need to make for clean water, affordable water, reliable water for years. It's in our best interest not just our customers. And our customers, regulators that every $1 we spend, not just O&Ms so we can put $7 dollars of capital for every O&M we save which is wonderful for customer bills.

But also that every $1 of capital we put in the ground, we saved as much money on that capital expenditure. We have regulators say what would incentivize you to do that? Well we have many, many years of investment we need to make. And we think the sooner the better on some of these failing infrastructure. Pipes, pumps, the things that we do to make sure that our water is the type of water that you don't mind your children, your babies, your grandparents drinking.

For us, this capital efficiency, being more efficient with less is really a calling for us. Because we know we can keep this financial strength, this financial investment and still make sure that our customers are getting absolutely the best value of anybody they receive services from. It might sound pie-in-the-sky cheesy. But that's what we live by every day.

Because we know that our jobs in the water industry are bigger than jobs. If you don't believe that, remember Flint earlier in the year. The algae blooms in Lake Erie, or the Ohio River. The things that happen if you saw the USA, Mr. Fleischmann shared with me. I don't read USA Today everyday but yesterday, there was an incredible three-page article.

I think Steve said longest article he remembers being in the USA Today, about toxic water and small systems across the country because one of the things -- why is it important that you hear people like Radha or Kevin? Why is it important we talk about operations and what we're doing for customers? Because here's the thing. While Flint did -- was about lead in pipes, it was also about the ability to be able to withstand and to be able to achieve higher water quality standards.

It means having the best trained people with the best tools to make sure that the water that goes to your home is safe. And that you have to worry about it. When we are here talking about technology tools and we're talking about training and development. And you're like, yes, yes, yes, get us to the financial stuff so we can run our models, which is really important.

You need to understand that for us, this is a long-term plan to make sure that you are able to have those financials, not just for 2017 or 2018 or even 2021 but through 2025 and 2030. And that of all of the assets -- all of the investments that you have for your clients, that the one you worry about the least is American Water. That is what we want you to leave with.

Three takeaways: industry-leading growth; track record of executing our strategies, Walter mentioned that; and the differentiated strategy that I just talked about, which is the best people, trained the best with the best tools and innovation with customers that if the whole regulatory construct went away, they would say, I still want New Jersey American to be my provider of water because I trust them.

They are there when I need them. They give me what I need and I don't mind that my children are drinking their water every day. At the end of the day, that's who we are and that's what we stand for. With that, now is a time and by the way, how much -- how good is it that a company finishes early based on your agenda? Hardly ever happens. So what I like to do now is just open it up for questions for any of us. I will just direct the questions but any question you have about anything.

+++qanda

Q - Ryan Connors {BIO 15032883 <GO>}

A couple of questions. First, just Scranton, I think I heard somebody say that it is expected to close by the end of the year. Is that still expectation? Just a facts check there.

A - Susan Story {BIO 3335156 <GO>}

Scranton is a very complex acquisition. It's one of our larger ones. A lot of series of issues.

You remember, it is -- it serves this -- Scranton Sewer Authority actually serves more than one city. There is those issues, it was under consent decree, there's a lot of issues. We're finalizing the last couple of issues. So hopefully could be by the end of the year, or early next year.

Q - Ryan Connors {BIO 15032883 <GO>}

Okay. Thanks. Bigger picture question. Susan, there's been a lot of talk lately about hybrid utility models. So talking about electrics buying water and water buying gas. And that sort of thing. You all seem like you would be in a really good position to do that, something like that, given your scale and given your background. And so forth. Can you give us your view on the big picture on that model, whether or not it makes sense for American Water and why? And I'd also be interested to get Mark's opinion on this, especially if he's done any specific work on that topic with his team. Thanks.

A - Susan Story {BIO 3335156 <GO>}

I will start and then let Mark finish. Your point about background, for those that don't know, I spent 31 years in the electricity industry at Southern. Our CFO, Linda, spent 22 years at Southern California Edison, including five years as CFO. Our Senior VP of External Affairs who is not here, actually grew up in the electricity industry.

And for us. And I don't speak for others. And others do what is best for their companies, for American Water our core competency is water, wastewater. And the one water cycle. People you heard like Kevin Kirwan, people like Walter, like Mark Strauss. So for us, we believe there's enough growth opportunity in water and wastewater. And we believe the things that we are good at are that. The growing core competency of customer care and our understanding of legislative regulatory priorities in the construct. So we, just like in our market-based businesses, we want to stay true to what we know our competencies are. And that is water. Mark, do you want to add to that?

A - Mark Strauss {BIO 1650479 <GO>}

I strongly disagree with Susan. No. For those of us who lived through the RWE days, as you might recall, RWE had the dream of being a multi-utility, remember their hand with the many fingers. They were going to be in electricity and gas and water and wastewater. And how did that turn out? I'm expressing a personal opinion. As Susan said, other firms are left to their strategies.

We have so much to do in the water sector in the United States. I think our view, what we look at is, where are the other opportunities in the water sector. Geographic, the consolidation play that's needed, this country has huge needs in water. I mean water and wastewater, water sources, desal, reuse.

And this country is slowly awakening. Look, let's face it, friends. We have been a very blessed country on water supply. And we have taken it for granted. This country achieved things in last 100 years that, due to a lot of sacrifice by people for the last 150 years, we have taken it for granted.

Unless you have got a geyser in the middle of Main Street, people ignore deteriorating subterranean infrastructure. And those chickens are starting to come home to roost for us. As we look at this, yes we have taken a look at it. It just doesn't make any sense for our company. We see room to run, we see a lot of unmet need, we see a lot of customers that could benefit from us participating in a better future for them. And that's where we're focused.

Q - Michael Lapides {BIO 6317499 <GO>}

Susan, Michael Lapides at Goldman. A bit on M&A as well. But staying within water.

Because I look at electric, if I look at gas over the last three to five years, there has actually been a bit of a heightened M&A trend. Companies using, especially those with strong balance sheets. Using those balance sheets debt as equity to make acquisitions of smaller players.

Among the public companies, water has not gotten involved in that. Across all of you, whether it's you, your peer that's somewhat similar in market cap, or many of the smaller publicly-traded water investor-owned utilities. I guess my question is one, how should we think about the multiples you are paying, when you are buying municipally-owned systems. And compare that to the current trading multiples of where some of the really small cap water utilities are? That's question one.

Question two is, given your balance sheet strength. And the thing that Linda didn't touch on is how much balance sheet capacity would you have, if you are willing to be BBB-plus or BBB? So you would still have a really strong balance sheet. And yet might free up even more capital. How do you think about whether that could give you an opportunity to roll up the sector even faster going forward. And maybe take on whether they're larger municipal acquisitions rather than the 5,000, 10,000, 15,000 customer ones, or even some of the publicly-traded comparables?

A - Susan Story {BIO 3335156 <GO>}

That's a great question, Michael. I will start. And Linda and Mark may want to jump in. We actually do look at if we had a major acquisition, how much our balance sheet could handle. What if it were stock, what if it were debt? Of course, if interest rates go up, it's a higher % of debt, it's not going to be quite as attractive. And I think you are already seeing a little bit of downward pressure on multiples.

We do look at everyone. But a couple of things. Number one, you have to have a willing seller. And a lot of times, when you have high multiples and you are only a willing seller if you have a multiple that is higher than the biggest multiple based thing for the past two years. And we have a really technical process -- Mark talked about, we actually have very disciplined financials. But we have a last-ditch gut check. And it's called where is the stupid line?

Where is the line that if you think people are going to go, that was really stupid? We also want to have no regrets. In 5 to 10 years, are people going to look back and say, that was a strategic acquisition that looked expensive at the time. But wasn't? Or are they going to say, we're still paying for a bad decision?

We have very healthy debates among our executive team about all of that, at all times. Mark talked about our commercial development committee, that Mark and Linda and Walter are on. And our General Counsel, Michael Sgro, is on. And the states have those. And they come in and they debate. And they push each other and they stretch.

I say that to say, we're always open to look. But we don't think we have to do something that appears desperate, or that we overpay. And we also have models that look at long-term, not just at EPS accretion. You can get EPS accretion without value creation. We look at EPS, we look at ROEs in 5, 10, 15, 20 years.

We look at the impact, diluted or accretive on ROEs, not just on what it does for EPS. So we look at all of that. And at the end, we say, what is the level at which, if somebody was above this, we could say, good, they can have it. And I know that's not a specific answer. But Linda, do you or Mark want to add to that? Anything more detailed than what I said?

A - Linda Sullivan {BIO 7300156 <GO>}

I think would add that in our corporate strategy and business development area. So what are the suite of opportunities that we have? How do we capitalize on those opportunities, in a way that fits us from a strategic standpoint. And fits us from a financial standpoint. And which we would have no regrets. So those are the types of things that we look at. And we do that on a continuous basis, Michael.

Q - Michael Lapides {BIO 6317499 <GO>}

Maybe a bit of a follow-up. How should we think about what the multiples you are paying for municipal utilities. So the 10,000, 15,000, 20,000? Relative. And maybe that's at time of acquisition and then more normal run rate, relative to maybe where you trade?

A - Mark Strauss {BIO 1650479 <GO>}

It's hard to translate that directly across. But I will tell you that on balance for all of the vagaries of acquiring municipal systems, I think on balance, it's more value-add for our shareholder. And ultimately for the customer, because of the drivers. You're not looking -- we don't look at it as a multiple. We look at it as, think of a state where you have fair value legislation, right? You can get it all on rates.

You're basically, you can eliminate or really reduce what the premium is going to be. And you've got other mechanisms. Our primary measure is what is the rate of return going to be on the capital we are investing, not what's the multiple on the turn of the revenues type of a thing, because we are not -- typically, if you look upon it as buying a going concern, you're going to add in all those other factors. Municipalities don't think that way. And we usually tie it to bottoms-up modeling rather than take the revenue, give a multiple. And how much are we willing to pay?

A - Susan Story {BIO 3335156 <GO>}

And I don't think you've seen us think you've seen us pay $20,000 a customer either. Or $15,000. Some things you have to be careful about.

So take McKeesport, for example. Technically, when you look at retail connections, it looks like $10,000. But there's a lot of collection system with bulks, it's actually $22,000. So maybe sometimes when we do this, the calculation of how we get there. But we're actually extremely disciplined on that. And again, each system also it looks at. So what do you have to promise that you won't make rates go up more than, or is there a cap?

We put all of that in the systems. And I will tell you, the type of rigor we put into this. So about a month ago, we brought in one of the professors at Wharton who actually our modeling group that works with Jim Gamble, came in and they are looking at new modeling techniques that they're going to be rolling out to Wall Street. And saying, we're finding that these are actually more predictive. So we're always looking at the modeling that we do. And actually working with Wharton and different schools to say, how do we actually look at this differently, to make sure we're not -- that we're are looking at all the factors and that we can make smart decisions?

But to Mark's point, when you look at multiples and you start looking. And a lot of it depends on what's the balance sheet of the acquiree versus your balance sheet. We have a lot of opportunity. But then you look at who you are acquiring. And in the sector, there's a lot of space on a lot of those balance sheets. We also don't want to overpay. And even if you have fair market, overpaying even at fair market, you paying 40% above fair market, you still have to deal with those premiums that are leftover that you can't get in the rate base.

Growth for growth's sake is not what we are after. We are after disciplined growth that allows us to have this EPS growth. But also allows our ROEs to continue decreasing the lag between our allowed ROEs and what we are actually accomplishing. That we share with you. And again, the ability to say we're making smart decisions. You can call it a strategic acquisition, you can't do too many of those that are dilutive long-term.

Q - Michael Lapides {BIO 6317499 <GO>}

Thank you.

A - Susan Story {BIO 3335156 <GO>}

He asked us what time it was. And we told him how to build a watch. But that's what you get Michael, when you ask a question like that.

Q - Steve Fleishman {BIO 1512318 <GO>}

Two questions. First, just on the long-term growth rate, the 7% to 10%. If you look at 2016 and 2017 guidance, you are around the lower end of that. And so, as we're thinking about this growth rate, are you thinking that you'll see an acceleration in the later period, to get back in the middle of that range as a midpoint? How should we think about using that growth rate?

A - Susan Story {BIO 3335156 <GO>}

When we say 7% to 10%, we believe that we will be in the middle of 7% to 10% long-term over the five years.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, is that maybe, that's the market-based businesses, with the headwinds maybe going away?

A - Susan Story {BIO 3335156 <GO>}

It's the puts and the takes. When you look at it, we are -- we do a financial plan that is both stretch. But also a bit of conservatism. You heard Dan say, for example, we haven't built-in some of the things that he talked about. If there is a loosening of sequester, we didn't build that into some of the plan. Also on the reg side, we're staying 1% to 2% growth, in regulated acquisitions, which would be 30,000 to 60,000.

As you heard Walter and Linda say, we're monitoring. 2016 was a good year, the pipeline is very strong. If we go two or three years and see that there's almost a step change, you will see us come back next year, when we re-up the five-year and do an adjustment.

Right now, we're trying to do appropriate stretch. But also in conservatism. What we don't want to do is to overpromise. And right now, we are watching carefully what the market trends are. So if we do this, it could be each year, or if we see something mid-year that's a game changer, we would basically change and revise at that time.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. My other question is on the potential Trump infrastructure plan. You might have answered this, or talked about this at the beginning. But to the degree that they focus on water investments, have you had any discussions with the transition team about how they might look at investing? First of all, how focused are they on water infrastructure investment. And if they did it, how they would actually invest the money?

A - Susan Story {BIO 3335156 <GO>}

Yes. That's a really great question. In terms of working, earlier this year I actually co-chaired with Doug Peterson, the CEO of S&P Global, the Bipartisan Policy Center's infrastructure study, that actually had support from both Republicans and Democrats, that said it was transportation, water and wastewater were the focus areas. What was advocated was municipalities need to have the full optionality.

If they want to have private equity financing and do it themselves, fine. But for the first time ever in P3s, we got into the report, or they can sell their assets in water and wastewater. That was because of the fact that American Water was part of the discussion.

So the Bipartisan Policy Center is working, some with the transition team. Also there are other avenues that we're working through. How the Trump, I think one of the most interesting things is they talk about the 82% tax credit. What they figured out is that, an example, the repatriation of profits from overseas.

One of the things that actually was presented about three years ago as a bipartisan effort, there were 25 Democrats and 25 Republicans in the House. And five Democrats and five Republicans in the Senate, that were looking at infrastructure fund, that what you would do were those companies who have profits overseas could bring those back. And for example the 10% penalty that comes from repatriating profits, if they brought $1 billion back, then the tax would be $100 million, that what the Trump administration has figured out that an 82% tax credit of that, that for $121 million invested in the infrastructure fund, that those companies could repatriate $1 billion worth of profit. And rather than pay the taxes, actually have an investment in infrastructure fund.

And through what we can gather from the administration is, that fund would not only be open for municipalities to leverage. But also with us. So an infrastructure fund that actually helped to get profits back here. But then also would allow lower priced money for infrastructure, that will be open to all parties. And not just municipalities. We're very supportive of.

And I find it fascinating, one thing that's interesting about the plan is, if you're doing tax credits for 82%, you're also, every time you put $1 into infrastructure, then labor is about 44% of every dollar that you spend. Those people making that money are also paying income taxes, at 28%. You're buying equipment and material that has sales taxes.

When you talk about a tax credit to actually spur an infrastructure fund, you're not only potentially getting the opportunity to repatriate profits. But you're actually getting part of that back into the government in taxes through the taxes paid by labor and the sales taxes. If they're able. And again, this is one of very few areas in Washington that there is bipartisan support, if we can find a model like that for infrastructure that gets bipartisan support, it wouldn't be quick, I don't think in the first few months. But I think that could be something that can be very positive for all of us. Brian?

Q - Brian Chin {BIO 5763426 <GO>}

Following up on your comments. And Steve question. That first slide where you talked about the impact of President Trump's administration, you referenced the possibility of American Water tapping into lower-cost financing, as part of infrastructure opportunities. Can you go into a little more detail on how would that be realized mechanically over the next one or two years?

A - Susan Story {BIO 3335156 <GO>}

You can look at the state revolving funds in the states that allow, for example, Pennsylvania American, several of our subsidiaries are already in states where you have state revolving funds. Those funds. And it's a state decision, that the funding is from the federal government. But each state decides whether they will allow private utilities to be part of it. Most of our states do, some of them don't. I will tell you that we already, the way we look at it for the American Water Capital Corp, which is our financing arm of American Water, we look at what those costs would be. And in some states where you see we do have some debt now that's actually at a state revolving fund.

So we see it operating probably pretty much like that, unless it's held at the federal level. And then we would see a process similar to that. But we would advocate for it to be state to state. So that the states could then determine how those monies are spent.

Q - Brian Chin {BIO 5763426 <GO>}

Got you. One more follow-up question. On the same slide, you made reference to natural gas pipelines. And how some of the benefits of the way the new administration might look at those pipelines could also affect water. Clearly historically, there's been a tie between how those asset classes are treated. But could you spend a little more time talking about specifically what sort of mechanisms or adjustments might happen in the first two years of the next administration?

A - Susan Story {BIO 3335156 <GO>}

This is mainly for Keystone. So what I was saying is that one of the issues about -- the good news and the bad news about operating in the Appalachian basin, which is the only location that Keystone operates in is in the Utica and Marcellus as part of the Appalachian basin, is the big constraint with Appalachian basin is the takeaway capacity. It is the cheapest place to drill in the US for natural gas, they have a need for water. But what happened is they are very constrained with takeaway capacities. I think there's nine pipelines or takeaway pipelines that are under construction.

A - Mark Strauss {BIO 1650479 <GO>}

About 15 Bcf coming online of takeaway capacity in the Appalachian Basin to assist this problem. What I'm saying is that as there's more openness and support for building pipelines and takeaway capacities that opens up the Appalachian basin even further, that is very good for our Keystone subsidiary. Not necessarily in tax treatments, pipelines in general. It was more along those lines.

Q - Unidentified Participant

My question is around the capital spending plan. So for the $5.9 billion for the regulated system investments, I was curious if you could give some color on how much is going for in-plant, how much is out of the plants, like in piping. And if you're investing in some technologies like smart metering. Can you touch on that?

A - Susan Story {BIO 3335156 <GO>}

Walter, do you want to answer that?

A - Walter Lynch {BIO 6064780 <GO>}

Pipelines, I'd say about 40% or 50% is in pipes and getting a quick recovery on that. The other is spread across all of the investment projects that we have, upgrading water and wastewater treatment plants. Typically the metering, we replace about 250,000 meters every year on average, on average costs $100, that can give you an idea of what our meter costs are.

Q - Unidentified Participant

Then a follow-up, in terms of smart meters and just upgrading, does technological upgrades increase the life of these assets? We're saying they need to be replaced over time, would an investment in technology allow them to exist for a longer period of time?

A - Walter Lynch {BIO 6064780 <GO>}

We have different replacement rates for meters in different states. In New Jersey, it's 10 years, in some other states, it's 20 years. So what we're doing is making sure that as we move to AMI, we have the right equipment on those meters. So we can naturally not have to replace them. But just leverage the AMI technologies.

Q - Unidentified Participant

Thank you.

A - Susan Story {BIO 3335156 <GO>}

In fact, that's a great -- another differentiator in electric and water is this. On the electric side, we really didn't have states that say you have to change out your meters in X period of time, water we do. Because remember, in water meters, you have the physical water moving through the meters. So we actually are required state by state to replace them.

So with AMI, it probably will give us more flexibility. And the interesting thing with Radha onboard is, okay, a lot of the electrics have already done AMI. \ A couple of differences with us, number one is, for water, we're at the point of technology where the costs have come down significantly. And actually now there are meters that you can install as AMR. And then download over the airwave software that then they can be AMI compatible, at much cheaper prices than when the electrics were going through it. It's really phenomenal.

The other thing is, we, unlike electrics, aren't choosing one meter manufacturer. We started working with a company years ago to create what I call an international translator, that whether it's a Mueller meter or Neptune or Badger or whatever, that they can communicate with each other. And because we're the largest purchaser of water meters the country, people are playing along.

I'll tell you about two or three years ago, one of the big meter manufacturers said, you can't put the chip in our meter and we said, okay, we won't buy any meters from you anymore. And they changed their mind because we buy so many meters. So the ability to leverage those things with the new technology -- it's incredible since Radha came on is that we're looking at a lot of this technology investment. And still actually having the same or lower technology budget than we've had in the past.

So it's really very, very exciting where we are in that realm. And to have Radha who actually was behind and led the rollout of smart meters for SP&L. And a lot of their customer transformation, is exciting. And the artificial intelligence sounds way out there. But it's really just smart machines that reason, that can take this huge data. And basically give you value-added analytics. So we can be more responsive and more targeted. And not waste a lot of time.

Our goal is, every customer only has to talk to one person and it's first call resolution. That is our goal. Because what frustrates people more than anything is getting transferred, having to call back, or having to wait. And somebody call you back. So we really think all of these tools will allow us to do that.

And also, if you've got problems with meters, or you've got leaks, it's not -- we don't make money off of water that is leaking into the ground. So the ability to stop these leaks. And you heard Walter, on average in this country, we lose 20% of treated water every day, at 20% a year, 2 trillion gallons a year, that we've already gone to the expense of treating, that just leaks out. And that's non-revenue water.

So the ability to stop that, think about that, the impact of that. It's a far less, it's much more economical to do that than it is to invest in the technology. More economic to invest in the technology than it is to have those losses. What else? Yes, sir.

Q - Unidentified Participant

I just had a follow-up to that question, actually. When you talk about leak detection sensors and the customer engagement platform spending, how much are you spending on programs like these annually? Are you working with third parties for the data analysis, or do you do that in-house? What's the thought process about that going forward? Then what's the ROI for spending on items like these?

A - Susan Story {BIO 3335156 <GO>}

So we don't actually calculate the ROI. What we're doing is looking at the efficiencies, the total technology. And what we're getting for it. We don't actually breakdown -- we might consider in the future, Linda, looking at the technology spend. We've just never really broken that down separately.

So but it is -- and it is lumpy. When we put the SAP system in 2012 and 2013, the big spend, now that we have got our back-office system in, I will tell you this. All the new technology spend that we're looking at in the future is customer facing. We have our SAP system in the background, we've got functionality there. Now we're looking at things like, how can you do those tools that help the front line folks be able to serve the customer better?

I will tell you. So I was up in North New Jersey with Kevin about two months ago. And there was a 63-year-old field service rep. And we're rolling out smartphones that you can actually -- they can put in a new meter and immediately see if it's working on their smart phone. And he said this is one of the most -- I've worked here 31 years. And this is one of the most exciting things I've ever seen. So the ability to do that and to do it immediately. And to have the employees buy-in. And a smart phone, it's not that expensive when you buy it in bulk like we do.

So looking for applications that aren't new systems. So what's fascinating to me is, how we can get our technology budget to go down. And yet be so much higher tech. Also, I will tell you though, one thing we haven't talked about today that's really, really important.

The issue of water quality. The fact of the matter is, there are 50 million plus chemicals that are registered today. It took 33 years for the first 30 million to ever be registered. 33 years. It took nine months for the last 10 million.

Every 2.6 seconds, a new substance is being synthesized from chemicals breaking down, including in waterways. So this issue of water quality -- and there are 1,400 microbes that can affect drinking water. This issue around water and the thought that smaller systems with staff of 10 or 15 or 20 people are going to be able to stay in front of this.

That's why things like Kevin and Radha, they were talking about. And Doug, like having chips that measure water quality immediately, before you have a sample. And by the time you find out, people have been drinking it for eight or nine hours. I think for us a big part of the technology investment that we're going to be making in the future doesn't look like it did in the past.

It's going to be things to ensure that the quality of water stays safe, because you talk about reliable and affordable water, the way we look at, if the water is not -- if you don't have quality water and you have dangerous water, nothing else matters. It doesn't matter what other things we're doing, if the water we're serving isn't healthy for our customers.

So we have to make sure we remember those fundamentals. And we're making sure that we put those investments in things like that, that differentiate us. And ensure the water quality. I think that is going to be, personally, the biggest competitive advantage we have in acquiring systems in the future.

Q - Angie Storozynski {BIO 15115714 <GO>}

Angie Storozynski, Macquarie. So I wanted to be a bit picky about 2017 guidance. So if you look at it, the guidance is in line -- largely in line with the range. But it's mostly market-based services that are growing. The growth on the regulated side is actually slow, about 4%, 4.5%.

Is it simply because those regulated acquisitions actually have an earnings drag, until you get a step up in rates? And if that's the case, are we expecting that the next, say two years, will have a subpar growth in regulated earnings? Because if you're showing that your rate base is actually growing at a 5% to 6% rate. And that seemingly the earnings growth on the regulated side actually lacks the rate base growth.

A - Susan Story {BIO 3335156 <GO>}

Linda, do you want to take that? That's a great question, that we've talked a lot about.

A - Linda Sullivan {BIO 7300156 <GO>}

Thank you, Angie, for that question. When we look at the regulated acquisitions, we talked a bit today about the timeline, that it can take some time to get through the process, to where we have the full acquisition authorized in our rate base.

Well between the time that we close the deal and the time that it's authorized in rate base, we use financial metrics, to where we would expect to have a positive contribution to earnings during that timeframe. Then you would hit the full hurdle rates, once you get through the full rate case process. And that's why we finance that during that period of time, with shorter-term debt, as well. But we would expect a positive contribution, not necessarily the full contribution from that asset right away.

We also -- when we look at the regulated business, depending on the timing of rate cases, things are going to move up and down on a year by year basis. And that's primarily why we get a long-term compound annual growth rate. We are not saying earnings are going to grow 7% or 10% -- or 7% or in the middle of the range every single year, it's a range of 7% to 10% over that period, because of those types of issues.

A - Susan Story {BIO 3335156 <GO>}

And if you tend to have two or three of your bigger states have rate case outcomes in the same year, you're going to get a lump year outcome. And also, keep in mind that with the headwinds that we had this year in both military services as well as Keystone, that the market base did not grow at its normal rate this year. So you will see an acceleration, probably next year, especially given we think will be an increase in Keystone. And it will be accretive next year.

Q - Unidentified Participant

I'd like to ask a couple questions. And I'll preface it by, I realize there's 1,000 variables. But you must have a way of thinking about this. The first one, rather simplistically is, what does it cost to replace the water main the day before it breaks versus the day after it breaks?

A - Susan Story {BIO 3335156 <GO>}

It's 10 times more expensive to repair a pipe after it breaks, than to repair it before there is a break.

Q - Unidentified Participant

The second one being, we know is that -- and this could -- you can even look back 10 years or out 10 years. But you must be -- how much faster are water mains breaking as the system gets older and older?

A - Susan Story {BIO 3335156 <GO>}

That's a great question, it depends on the pipe. Kevin, do you want to take that?

A - Kevin Kirwan {BIO 19990896 <GO>}

Sure (inaudible; microphone inaccessible)

A - Susan Story {BIO 3335156 <GO>}

This is not going to be a good weekend, by the way. Whenever you get freezing cold weather and then it's 60 degrees on Saturday, that is not good.

A - Kevin Kirwan {BIO 19990896 <GO>}

(inaudible; microphone inaccessible)

A - Susan Story {BIO 3335156 <GO>}

We actually have a chart we probably should start including in investor materials. We actually have a chart that's showing our investment. And shows that for the last two years we are on the downturn, in terms of main breaks, as we invested more money. It's a great chart.

Q - Unidentified Participant

I appreciate that. But part of what I was asking is in the municipality that is not doing it as fast as you are doing it, how fast -- how much does is increase happening year-over-year, because presumably the more breaks they have, the more attractive the relationship with you becomes.

A - Susan Story {BIO 3335156 <GO>}

On average, in the United States, they are -- we say every 250 years. So it's really 0.4% of lines are being replaced nationally. And you heard Walter say our goal is 1%, which doesn't sound like a lot, one every 100 years. But it's 2.5 times better than the national average.

But to your point, one of the reasons the smaller and medium-sized systems, they get so distressed, because if your municipality -- and remember, these folks have so many priorities. There's schools, there's roads that need paving, there's community centers. And they've got pensions that are unfunded sometimes, pension liabilities.

They are sitting here and they say, okay, are we going to try to replace a pipe that's not really -- nobody is noticing, or wastewater pipes nobody's noticing, or am I going to build a park, or a school? Because -- or potholes, covering up potholes.

What is happening is a lot of this infrastructure was put in the ground before World War II and wastewater, a lot of the wastewater was right after World War II. It's now starting to fail. And it's a failure. And a huge amount of investment that's required. Add to that, typically as a private company, when we have -- for example, if we ever had a consent order, we might be given months to fix it.

There are municipalities who have consent decrees, meaning they have violated wastewater discharges for 10, 15, 20 years. It's not been enforced as much in municipalities. When you see things like Flint and things happening, the EPA is really ramping up their enforcement of the regulations on everyone. And we think that could be a driver, that they are going to either have to invest as a municipality, or they need to find other options.

Q - Unidentified Participant

As just a quick follow-up to that, if the EPA is ramping that up, does it give you fodder for better conversations with the rate authorities?

A - Susan Story {BIO 3335156 <GO>}

We think that enforcement of regulations is good. We have a quality of water standard that is typically higher than even required in a lot of places. So increasing water standards, as you heard earlier today, are actually good for us.

Q - Unidentified Participant

There was one reference in visuals to the combined sewer outflow, or outlet issue, which I think of Philadelphia. Enormously expensive. But hugely important to water quality. Are you dealing with, as it were, your fair share of CSO projects, or is that something, in view of the capital intensity, that you'd rather not be dealing with?

A - Susan Story {BIO 3335156 <GO>}

That is an interesting question. We've had a lot of discussions. I'll start. And then I think that Mr. Strauss may want to jump in.

For example, in Scranton, the CSO, which is combined, where you have combined stormwater and sewer, we're not looking at buying stormwater systems. Where you have combined, to the point and Pennsylvania just actually acknowledged this through regulation and legislation, also, that the moment wastewater touches stormwater, it's wastewater, which we think is an appropriate way to basically describe that.

We're looking at different systems. We are not buying stormwater systems. Where however, there are systems that have the combined sewer and stormwater, we are looking entirely at the entire asset purchase, to determine if that's what we want to be involved with. Mark, do you want to add anything?

A - Mark Strauss {BIO 1650479 <GO>}

The CSOs and American Water's portfolio, wastewater systems, pre-Scranton, is a very limited amount of CSO. Most of it is segregated systems, where we have the wastewater, the storm sewer system is owned by the municipality.

However, to your question, CSOs, that has been an area of focus for enforcement by the EPA. And I think irregardless to the change of administration, that's going to be an issue that's going to continue, because you get these flushes into rivers and waterways where you get a storm, they are typically areas that --older developed areas. And a lot of times, they have financial stress as well.

And as you pointed out, it's enormously expensive, especially in a more urbanized area, to go around digging up streets. You're not out in the countryside. It is something that we are focused on. I think it has to do with our ability to deliver capital efficiently.

You remember Walter's discussion about capital efficiency. There's no pixie dust about this. It's not like anybody's going to come along and say, I can wave a wand and they're going to be separated. It's very intensive work. But there are strategies you can adopt, whether it's retention chambers and then metering to the plant, separating the lines is pretty expensive.

But there are things that can be done. But I guess for us, we do view it as an opportunity. But we're going to be very disciplined about it. We will only go after those opportunities where we think we can make a positive difference for the rate payer. If we're engaged, if we bought that system, would that rate payer be better off 10 years down the road than if they were left on their own, or if somebody else acquires them? We're pretty rigorous about that testing.

A - Susan Story {BIO 3335156 <GO>}

And one small way we're going to pilot it too, is that our military bases, some of the commanding officers have said, you have water and wastewater for the military base, we'd like for you to take over stormwater. We believe that the legislation enabling privatization legislation allows us to do that. There's been some disagreements with some DoD lawyers. But that would be a great opportunity for us to test that, from a stormwater standpoint, on a much smaller scale. So we're very interested in doing that.

Q - Unidentified Participant

And a not unrelated question, is there any happy takeaway from the debacle in West Virginia, in terms of your getting regulatory support for forensic work upstream of your intakes. And just trying to head off something like that?

A - Susan Story {BIO 3335156 <GO>}

Absolutely. The thing with West Virginia is that it's more, it's not as much regulatory as it was legislative. The fact is in West Virginia, there were no requirements for reporting for Freedom Industries, to report even to the state, DEP, what was stored in the facilities. That was remedied through legislation that now requires anyone who keeps chemicals, they have to report to the DEP. And we have access to those reports.

Another thing that happened, of course, is that Freedom Industries went bankrupt. I will tell you that another thing the state has done, is in 2015, they have passed more stringent tort reform, that unfortunately the lawsuits against us after the bankruptcy of Freedom Industries were filed before the tort reform. And there is a regulatory issue in West Virginia that only affects West Virginia American Water, that's not present in any of our other states, nor are the electrics and gas held to it, which is ambiguous to the point of being responsible for any interruption of service.

And we think that is an issue in West Virginia. It's very limited, it's not in any of our other states and it's only for private water in West Virginia. Those are some of the lessons learned that we need to deal with.

Anything else? Well you have our numbers, Mr. Vallejo and Melissa Schwarzell can get anything to us. I just want to close, first of all, thank you for being here. I know this is a big commitment close to the holidays. We really appreciate you being here, we appreciate your great questions, your smart questions.

Thanks for your time and attention. And I mean it sincerely, we really appreciate your investment, your clients' investment in us. And I will tell you this, just like for our employees, they care about what they do. And it's more than a job, because what we do matters in communities and the people we serve.

We also understand that we're here because of the owners of our Company, who are shareholders. We don't want them to be surprised, we don't want them to worry in retirement. And we look at it to say, again, to the end of the day, we want to be the stock that you worry about the least, that's most predictable. And that you know where we're coming from. And that we stay true to our knitting.

If we ever have bad news, we will tell you, good news we will tell you. We want to make sure, we'll be measured in how we do it. And somewhat conservative. But we want to make sure that we are the Company that you can be proud to own. And that your clients can be proud to own. If we're ever not, we expect you to pick up the phone and call us and tell us.

Okay? And I will tell you that those of us who got to speak today are speaking on the behalf of the 6,700 amazing, absolutely amazing employees in this Company. I just wish you could get to know more of them and what they do everyday. And the dedication and commitment that they have to our customers. And we have story upon story of the things that they do for our customers that are extraordinary and out of the ordinary, because they just take their jobs not as working for the water company. But providing a critical health service. Thank you for being here, happy holidays. And be safe going home.