Q4 2021 Earnings Call

Company Participants

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

Other Participants

- Angie Storozynski, Seaport Global
- Durgesh Chopra, Evercore ISI
- Insoo Kim, Goldman Sachs
- Julien Dumoulin-Smith, BofA Merrill Lynch

Presentation

Operator

Good morning, and welcome to American Water's Fourth Quarter and Year-End 2021 Earnings Conference Call. As a reminder, this call is being recorded and is also being webcast with an accompanying slide presentation through the Company's Investor Relations website. Following the earnings conference call, an audio archive of the call will be available through 3447529. International callers may listen by dialing 14123170088 and the access code for the replay is 8387509. The audio webcast archive will be available for one year on American Water's Investor Relations website.

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

Aaron Musgrave {BIO 22474483 <GO>}

Thanks, Tom. Good morning, everyone, and thank you for joining us for today's call. At the end of our prepared remarks, we will open the call for your questions.

Let me first go over some Safe Harbor language. Today, we'll be making some forward-looking statements that represent our expectations regarding our future performance or other future events. These statements are predictions based on our current expectations, estimates, and assumptions. However, since these statements deal with future events, they are subject to numerous known and unknown risks, uncertainties, and other factors that may cause actual results to be materially different from the results indicated or implied by such statements. Additional information regarding these risks, uncertainties, and factors as well as a more detailed analysis of our financials and other important information is provided in the earnings release and in our December 31, 2021 Form 10-K each as filed with the SEC. The reconciliation for the calculation of the O&M efficiency ratio, a non-GAAP financial measure, can be found in our earnings release and in the appendix of the accompanying slide deck, which has been posted to the Investor Relations page on our website. All statements of presentation related to earnings and earnings per share refer to diluted earnings and earnings per share. In addition, for the purposes of the presentation, our long-term EPS CAGR range is anchored off of the normalized 2021 earnings per share results, our last reported actual results.

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

M. Susan Hardwick {BIO 16618718 <GO>}

Thanks, Aaron, and good morning, everyone. Before we get started, I want to take just a moment to say thank you for all of the thoughtful comments sent our way over the past few months to express your best wishes for Walter and his recovery. I also want to thank those who have reached out over the last few weeks with your encouragement for me in the role as CEO. It's an honor and a privilege to serve this great company.

And as I begin this journey, I want to reassure you that our strategy remains unchanged from what we shared with you in November of last year. This team is energized and is in execution mode to deliver on our commitment of 7% to 9% long-term earnings growth by continuing to invest in our infrastructure, grow our regulated operations through acquisition and support our military by growing our military services footprint. We are focused on operating where we create the most value. And now, as we've transitioned to 100% regulated and regulated-like business, we believe we are positioned to deliver even higher quality earnings. There is no other water and wastewater service provider in the United States with our scale and capability. And for our investors that rely on our dividend, we are committed to grow our dividend at the high end of the 7% to 10% range.

We know that the best way to secure your confidence in us is to deliver. That's exactly what we did in 2021 and what we are committed to do going forward. And with that, let's get to it.

Turning to slides five and six, I'll start by covering our financial results and then share some highlights of our operational excellence in 2021. For the 12 months ended December 31 , 2021, earnings were $6.95 per share, compared to $3.91 per share for the same period of 2020. Full-year and fourth quarter 2021 results include a gain of $2.70 per share, which reflects the completion of the sale of Homeowner Services in December, reduced by the $0.19 per share contribution to the American Water Charitable Foundation from the proceeds on the sale.

Full-year and fourth quarter 2021 results were $4.25 per share and $0.85 per share respectively before the gain on the sale of HOS. This represents an 8.7% growth over 2020 earnings, a strong result that is in line with expectations and demonstrates another year of successfully meeting our annual earnings guidance.

Earnings in the regulated business in 2021 increased $0.40 per share. Regulated results include the impact of increased revenues from new rates in effect as well as earnings from acquisitions, offset somewhat by higher wages and other labor related costs. Production, operating and maintenance costs and depreciation also increased in support of growth in the business.

Market-Based business results apart from the gain on the sale of HOS decreased by $0.10 per share compared to 2020, primarily because of the timing of the sale of HOS. Parent company results were $0.04 per share higher in 2021 as compared to 2020.

On the people side, I'm very proud that last year marked one of our company's best years of safety performance and excellent outcome amid the ongoing operational challenges related to the pandemic. We also witnessed the value of our resiliency investments in our New Jersey, Pennsylvania and Maryland operations. We successfully withstood widespread flooding in the aftermath of hurricane Ida, while our customers' drinking water quality was not impacted in any of our service areas.

Related to capital investments, our Regulated business achieved $1.8 billion of infrastructure improvements, replacements and other system work in 2021 to better serve our customers. As we made these investments, we continue to work hard to keep customer bills affordable by focusing on operating and capital efficiencies, constructive regulatory outcomes and by leveraging the size and scale of our business, along with achieving our supply chain successes throughout the pandemic.

As we discussed with you in 2021, regulated acquisitions continued to be a key component of our customer affordability and growth strategies. While we welcomed approximately 20,000 new customer connections through acquisitions in six states last year, we know that these results are lower than our annual targets. And of course, acquisition totals fluctuate year-to-year, but we are encouraged that we are currently, that we currently have acquisitions under agreement covering about 77,000 customer connections to start the New Year. Cheryl will talk more about our progress on acquisitions a bit later.

And finally, we are pleased to have successfully executed on the sales of HOS and our New York and Michigan operations. As we outlined in November, we will redeploy the proceeds from these divestitures into our Regulated business, where we can best serve customers and drive efficiencies, and thus create value for our customers, employees, and shareholders.

Turning to Slide 7. We believe the combination of our EPS growth, our strong dividend and an ESG premium continues to be rewarded by investors, securing our place as a top performer in the utility sector on total shareholder return for many years now. As you can see on this slide, we have delivered an exceptional total return to shareholders of a 185% over the past five years, including our excellent dividend growth. Based on the long-term plans we've laid out and our history of executing on our strategies, we expect to continue to deliver a very competitive total shareholder return for many years to come.

Moving to Slide 8, I want to emphasize just a few points here. We continue to believe that our plan about the level of investment and how we intend to finance it is supportive of our current credit ratings. As we told you, both S&P and Moody's agree with that. They've both affirmed our ratings last year, following our Investor Day presentation. This was due in part to their recognition of our shift to 100% regulated and regulated-like earnings, coupled with our decision to operate in constructive regulatory jurisdictions. They affirmed that our solid financial metrics are a good complement to our business profile.

We're proud that our A credit rating at S&P is one of only two in the industry. Our strong credit profile is something we value and we will continue to work hard at maintaining it for the benefit ultimately of our customers.

The other thing I'll point out on this slide is our total debt to total capital metric. At the end of 2021, we were at 61% after adding back to total debt the initial HOS sales proceeds of $480 million yet to be deployed. This is about 1% better than where we ended 2020 and puts us on a good path to our goal of roughly 60% by the end of our five-year plan.

As we look ahead to 2022, let's turn to Slides 9 and 10 for a recap of some of the important strategies we laid out back in November. The map on Slide 9 clearly demonstrates our geographic diversity and how our scale and size are a key competitive advantage, especially when it comes to customer affordability. Because of our large customer base in each state, we're able to spread capital investment costs across that base, helping to maintain affordability for our customers. Including the 17 military installations we served through our Military Services Group, we provide drinking water and wastewater services to an estimated 14 million people in 24 states.

On Slide 10, as we laid out in November, we plan to spend $13 billion to $14 billion over the next five years and approximately $28 billion to $32 billion over the next ten years in our Regulated business. These capital investments generate significant economic benefit to the local and regional economies, while likely improving the environmental footprint of the systems in these communities. This is another demonstration of how the values of ESG are integrated into our every day work. We'll balance these investments through a disciplined regulatory strategy and strategic cost management to support customer affordability, and again, while there's a ramp-up time related to the increased capital and the recovery of those investments, our earnings will be more consistent and stable in the long-term.

Turning to slides 11 and 12, let's look ahead at our outlook for earnings in 2022 as compared to 2021. As we shared in our earnings release yesterday, we are affirming our 2022 guidance range of $4.39 per share to $4.49 per share. We thought it would be helpful to share some details of the drivers year-over-year, since there are several moving parts. As you can see on Slide 11, our regulated earnings growth range in '22 of $0.24 to $0.30 reflects the fact that we are filing several significant general rate cases in '22, along with labor cost and chemical cost pressures this year that may not be recoverable outside of a rate case. So, we're back in that regulatory cycle that we've talked about before.

And as I've mentioned previously, we will not see any material earnings in 2022 from the redeployment of sales proceeds from HOS in New York. But, we will benefit from the interest income on the HOS note and the revenue share agreement in 2022, helping to offset the loss of earnings from HOS operations.

Finally on Slide 12, I'll just reiterate that we are confident in the long-term financial targets we set forth in November, including 7% to 9% EPS growth through 2026 and we believe well beyond that.

Next, I want to cover a few important points about ESG, about our ESG efforts on Slide 13. American Water has been recognized as an industry leader in ESG for many years now and we're very proud of those accolades.

Today, I want to highlight what I think is an underappreciated aspect of our ESG story, namely our decades long runway of transformational impact in communities across the U.S. We are positioned through our regulated acquisitions growth strategy to lead significant environmental and social change in the communities we serve or will serve in the future. Slide 13 highlights this ESG impact opportunity for our required systems, but the reality is, our entire growth triangle has impactful ESG related initiatives integrated within each area. As you see and hear is continue to highlight this aspect of our ESG story, you'll begin to see our newly created ESG badge on as shown on Slide 13. It will appear both internally and externally in our communications as we raise awareness of the integration of ESG principles and values in all that we do. And you'll see the water drop part of the badge shift from E to F to G as appropriate in order to highlight the key impact for the topic at hand.

Let me close on Slide 14 with just one example of a story of ESG impact because of American Water's investment. This story comes from Indiana American Water, which serves over 1 million customers in that state. As some of you know, I'm originally from a small town in Indiana that happens to be just a few hours from another small town in Indiana called Sheridan. A number of years ago, Sheridan was facing significant environmental compliance issues with the U.S. EPA related to its wastewater system. As we so often see the issue became bigger than just an environmental one, the town was facing business development restrictions because of its non-compliance issues. And if you fast forward to today, you can see and as you can see listed there on that slide the many positive changes that have occurred as we partnered with the community to solve those issues.

In the future when you hear us talk about our acquisition pipeline of 1.3 million customer connections, I hope you'll see it in a different light. Sure, it means financial growth opportunity, which is very important to us. But it also means a long runway of opportunities to make a positive impact environmentally and socially.

And with that, let me turn it over to Cheryl to cover our operating strategies for '22 in greater detail. Cheryl?

Cheryl Norton {BIO 17107572 <GO>}

Thanks, Susan. Before we dive into our growth triangle to review key operational and financial goals this year, let's turn to Slide 16 to cover our foundations for success in 2022. As Susan mentioned earlier, our strength start with our unwavering commitment to safety, which is a leading indicator of our company's health, but we must get the other fundamentals of a high performance culture right as well. Striving for operational excellence helps us work smarter and it enables us to provide safe, clean and affordable water services for our customers. This means, we go well beyond minimum requirements in order to be the industry leader in operational and environmental excellence. This can only be achieved over the long run with a commitment to building collaborative high performing teams. We know that creating an equitable culture where people feel valued, included and empowered is critical to our ability to serve our customers every day.

We share with our employees the ways that they contribute to the success of our company, which inspires them to make a positive difference for our customers and for the communities we serve. The recognition of New Jersey and Illinois American Water for being ranked number one within the J.D. Power 2021 Water Utility Residential Customer Satisfaction Study, is truly a testament to our employees commitment to delivering exceptional customer service.

I'll talk more about growth in a few minutes. But regarding ESG, we believe the spirit of ESG is just an affirmation of the values we've upheld for decades. From environmental leadership and sustainability, to employee engagement and equity, to transparency and good governance, these principles are foundational to our corporate strategy.

Turning to Slide 17. I want to start by expressing my gratitude to our regulated business leaders and their teams for achieving our goal of $1.9 billion of capital investments in 2021. It's no small feet to safely and efficiently execute the hundreds of projects across our territories each year. This is especially true in years like 2021, when we reallocated capital mid-year in response to a business need. We allocated additional capital to infrastructure investments in the second half of 2021, as we witnessed less of a need for capital acquisitions in the first half of the year. As we've discussed many times, the infrastructure needs across the business are significant and our teams quickly adjusted to utilize the additional available capital. You can continue to expect us to shift capital between these two buckets each year to adjust for changing business conditions.

Looking ahead to our step-up and regulated infrastructure investments in 2022 of $2 billion from $1.8 billion in 2021, we'll be focusing on a variety of projects across our footprint. As we've told you before, there are very few major projects in terms of dollar magnitude, but rather hundreds of smaller ones. A few projects planned for 2022 that stand out though include $8 million for intake pipe work at our Hopewell Virginia Water treatment plant and $13 million for pipeline and treatment improvements at our Hays Mine Water treatment plant in Pittsburgh, Pennsylvania.

Moving to Slide 18. We want to briefly highlight our continued execution related to growing regulated rate base, which drives our earnings growth. We're also affirming our expectations of 8% to 9% rate base growth over the next decade, which aligns with the $25 billion to $28 billion of investment needs across our systems, plus the rate base we add through acquisitions.

Turning to Slide 19. Shown here is our summary of rate case filings. 2022 is a very busy year for general rate cases. We filed two cases already in 2022 in New Jersey and Illinois. These filings are driven by recovery of the extensive capital investments we've made since the last cases in those states, totaling more than $2 billion combined. We also have four active cases from 2021 that we expect to bring to conclusion this year, including West Virginia, where we invested almost $260 million in upgrading our infrastructure since our last case.

To show the magnitude of these filings to date, you can see on Slide 20 that we have a total annualized revenue request of $255 million, which includes two infrastructure surcharge proceedings. Already in rates is $218 million in annualized new revenue since January of 2021. This includes $135 million from general rate cases and step increases, including the agreed reduction in revenues for excess accumulated deferred income taxes and $83 million from infrastructure surcharges. For the remainder of the year, we expect to file additional general rate cases to roll in infrastructure investment and acquisitions since the last cases. As always, execution on these regulatory priorities is key to our plan for growth in the business. Because we make prudent investments and have skilled and dedicated employees working on these cases, we're very confident in constructive outcomes as we've demonstrated many times over the years.

On to Slide 21, where you can see that our focus on customer affordability continues. Our emphasis on cost and capital efficiencies, coupled with our customer growth efforts have continued to deliver very affordable bills as a percentage of household income for most of our customers. Our customers' bills are currently on average in the range of $45 to $65 per month. As we grow our footprint, we are continuously looking at ways to improve our operating efficiencies as we work hard to limit bill increases over time.

Turning to Slide 22, we continue to work constructively with regulators and legislators in the states where we operate. As you can see on the slide, there were multiple pieces of legislation enacted last year that we believe will benefit our customers and give communities more options as they seek solutions to water and wastewater challenges. Let me highlight just three. First in New Jersey, the state's Water Quality Accountability Act was strengthened last year. The enhancements include additional enforcement requirements for reporting data, stronger cybersecurity requirements and asset management plans, and requirements for the sale of systems with prolonged violations. Given the national news on cyber threats to our infrastructure, we saw this legislation as an important step taken by the state of New Jersey. Similar legislation also exists in Indiana and Missouri, and we continue to see other states consider bills that set operational standards for all water utilities. Second, we saw fair market value legislation enacted in more states. This important tool for communities now exists in 12 of the states where we operate.

Finally, the bipartisan infrastructure package became law. And we are currently working at the state level to identify projects, where we can use low-interest financing made available through an increased state revolving funds. The savings made possible by these state revolving funds are passed directly to our customers, meaning we can invest more with less impact to bills. I also want to note that in addition to our historical customer assistance programs, our states are implementing programs that were funded by the 2021 American Rescue Plan Act.

In Pennsylvania alone, we have distributed nearly $750,000 to customers in need in the first five weeks of the new program. It's a great program and one that we hope continues. We are already engaging in '22 legislative efforts at both the state and federal level as many sessions are underway.

Turning to Slide 23 and the acquisition piece of our growth triangle, I want to start by talking about our sharpened focus on our acquisition strategies. We're very focused on growing in states where we can leverage our competitive advantages. For us, this means a few things. We target acquisitions in the range of 5,000 to 50,000 customers where we have constructive regulatory environments, and existing footprint and critical mass. This critical mass is not only helpful to promote customer affordability and cost efficiencies, but as we grow in each state, we will have a greater voice to help solve industry challenges through the legislative and regulatory policies. We also have ample opportunities for wastewater acquisitions, where we have an existing water service footprint.

Now that we've covered the strategies, let's turn to Slide 24 to look at our 2021 results and our expectations for 2022. While we were pleased to welcome 20,000 new customers across six states in 2021, our $135 million of acquisitions was short of our planned target for the year. Some of this was due to COVID, as municipalities maintained a cautious approach to evaluating possible solutions for their systems needs in light of potential federal assistance. That said, we are starting this year with about 77,000 customer connections under agreement, which is a very strong number. This includes 74,000 customer connections under agreement as of December 31, of which approximately 45,000 are in York, Pennsylvania, which we expect to close in the second quarter of this year.

It also includes 25 more signed agreements from 2021 for acquisitions representing 29,000 customer connections, as well as another 3,500 signed in the first six weeks of 2022. Of those agreements, Egg Harbor City is the first sale under the New Jersey Water Infrastructure Protection Act and represents about 3,000 customer connections that we expect to close mid to late year. Importantly, we believe other municipalities will benefit by this legislation in the future.

You'll see on the slide, we also had bids accepted representing over 11,000 customers in five states at the end of 2021. The bids accepted phase is part of the pathway to acquisition falling between the pipeline of opportunities and the under agreement phase. In total, our goal is $500 million of acquisitions in 2022, including York. We also have multiple unique opportunities with communities that recognized our competitive advantages. We have great teams in place with great solutions to offer many communities. Combined with our infrastructure investments, we're very confident that we can meet our goal of $2.5 billion of regulated investments in 2022.

Turning to Slide 25. Our military Services Group or MSG completes our growth triangle and remains an important part of our business. This regulated-like business focuses on serving military installations across the country through 50 year operating contracts and then optimizing revenues on those installations beyond the base contract. We currently serve 17 installations and are actively bidding on three additional projects, including Naval Station Mayport in Florida, which we expect will announce the winning bidder this summer. The other two active bids are expected to be awarded in 2023. Beyond these three, there could be nearly 70 other opportunities in the years ahead. The majority of which we think we can win based on our successful track record and our growing expertise in the business.

I'll now turn it back over to Susan for some closing remarks. Susan?

M. Susan Hardwick {BIO 16618718 <GO>}

Thanks, Cheryl. Turning to our final slide, Slide 27. And before we begin Q&A, I want to reiterate what I said at the beginning of the call today. I am confident in the plan that we have in place to grow this business. And I'm confident we have the right teams in place throughout our states at the bases we serve and here in our corporate office to achieve our goals in 2022 and beyond. Our team has consistently delivered on our earnings and dividend growth goals year-over-year.

Nothing has changed regarding our team's ability and determination to continue that record of execution.

We have without question consistently raised the bar in the water and wastewater industry for standards of operating excellence, ESG leadership, and financial performance as evidenced in part by our exceptional five-year total shareholder return of 185%. That's why we're reaffirming the long-term targets we initiated last November.

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

Questions And Answers

Operator

(Question And Answer)

We'll now begin the question-and-answer session. (Operator Instructions) We will pause momentarily to assemble our roster. And the first question comes from Insoo Kim with Goldman Sachs. Please go ahead.

Q - Insoo Kim {BIO 19660313 <GO>}

Thank you. And first of all, I do definitely wish Walter the best of luck and hope she is following. And Susan, definitely good luck in this new role and an important one that.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Thank you, and we certainly appreciate that.

Q - Insoo Kim {BIO 19660313 <GO>}

First question, I think just on the financial side, I just wanted to verify that in your five-year plan, I think at the Analyst Day, you had talked about I think $1.1 billion of equity needs. I just wanted to confirm that that is still the right number that we should be thinking of and that's the case. And related to that, any thoughts around types of equity issuances, whether it's trade or potential for equity units or converse?

A - M. Susan Hardwick {BIO 16618718 <GO>}

Yeah. Insoo, we didn't specifically call that out today in the call, but you're absolutely right. The $1.1 billion of equity that we laid out in November is still our current plan, and it is still -- we're still anticipating it in, what I've always sort of characterized as sort of the middle of this five years. So you can expect it now in the '23, '24 time frame I think. We are still looking at options. We certainly think there are lots of tools in place to be able to execute effectively here, the size of the issue just over a $1 billion starts to get interesting in terms of size, I think we could easily do that in a single issue, but we want to make sure that we thought through how best to sort of time the issue with the spend. So we may look at sort of staging that over a period of time, again roughly sort of in that middle of the five years as I said. So, no change in the total, no change in the timing, still need to figure out exactly the final strategy on how we'll issue it. But I think that the sort of basics are unchanged.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. That makes sense. And then just on the CFO process of finding the permanent CFO, are you looking both internally or is it mostly external? And any type of profile that you're looking for, whether it's someone with experience in the utilities industry or what not? Just any thoughts you have there so far.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Yeah. It's a good question. We have engaged Korn Ferry to help us with the search. We do expect the search to move very quickly. And this is a highly regulated business as we've talked about, so certainly individuals that have utility experience have been in or around the industry will certainly be high on our list of potential candidates.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Thank you so much.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Thank you.

Operator

The next question comes from Durgesh Chopra with Evercore ISI. Please go ahead.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey. Good morning, team. Susan, congrats on your appointment and also my best wishes for Walter.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Good morning, Durgesh. Thank you. Appreciate it.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay. So just one thing I wanted to clarify. I think Aaron touched on this, but just on the 7% to 9% EPS growth rate starting point, did you guys effectively move that from '20 to 2021 now?

A - M. Susan Hardwick {BIO 16618718 <GO>}

It is anchored off of our normalized '21 and our practice here typically has been to anchor it off of the most recent actual results. So, as we were affirming guidance here and talking about long-term plans, we are anchoring off of '21.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay. Excellent. And then I think Susan, you also touched this in your remarks but, and I hear you on the strategy being the same, anything big picture that you would do differently? And I know you've been part and parcel of the strategy, but just any thoughts there.

A - M. Susan Hardwick {BIO 16618718 <GO>}

No. We think the strategy is quite strong. We obviously made some changes when we came out in November with the plan we laid out in November and we're absolutely committed to that plan. We think it is the right plan and as I said at the outset and I think Cheryl demonstrated in her remarks, we're very confident in our ability to execute on this plan.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Excellent. Okay. Thank you for that, Susan. And just one last follow-up if I may and I'll jump back into queue. Anything -- so how you're feeling about this New Jersey rate case that you just filed? Anything for investors to watch on? What are the drivers? Anything specifically that we should be focused on as this case progresses?

A - M. Susan Hardwick {BIO 16618718 <GO>}

Yeah, I'll let Cheryl comment in a second, but certainly it's a large case for us. We've got a lot of investment since the last case, believe it or not and that case I think was just two years ago. So, it's a very important case, large jurisdiction for us. We think we can be and have been very effective in the New Jersey jurisdiction. So we would expect sort of typical issues in this case, but we're very optimistic about the case we have filed and our ability to work through it effectively. Cheryl, anything you want to add to that?

A - Cheryl Norton {BIO 17107572 <GO>}

No, Susan. I think really, as you said, the main drivers are the amount of capital that we've invested in the system and it's a pretty standard case for us, strong team filing the case. And I will just go through the process, as we have in the past and it is important for us, but we feel like we've filed a really strong case with great investments.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay. Thank you both for taking my questions. Appreciate it.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Thanks, Durgesh.

Operator

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

Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you, and Susan, congratulations.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Thank you, Angie.

Q - Angie Storozynski {BIO 15115714 <GO>}

I just wanted to follow up on the equity. So I understand that you have plenty of liquidity right now and that you're trying to match that incremental funding with the spend. But I mean, you could consider an equity forward. There's maybe a way to also monetize some of the smaller, less core assets to avoid the equity. Could you comment on either of those, just to get this equity overhang out of the way?

A - M. Susan Hardwick {BIO 16618718 <GO>}

Yeah. It's a good question, Angie. And I didn't specifically mention this in response to Insoo's question. But certainly equity forward is on the list of options for us. We have executed some strategic transactions. We covered that in our remarks here today with the exit of HOS in New York and Michigan. Those are all aimed at essentially creating equity, creating proceeds for us to be able to invest that lowers the amount of equity we have to do in the marketplace. Obviously, those things were considered in the plan that we laid out in November and are contemplated in the $1.1 billion.

We'll continue to do those evaluations to see if there are other things we should be doing. At our current position though, we think this is the right set of assets for us to be invested in and the right jurisdictions. I think the plan as we have laid out again supports the need for that equity in the middle of the plan and as you've heard me say many times, while I know there's an anticipation for us to issue and the overhang that goes with that, I don't want to prematurely issue it and sort of carry that, the dilution associated with it, unless we've got investments to match it. So we absolutely have it timed in the plan that we think is appropriate. We'll continue to look at options on how best to do it and any adjustments we would make to that plan will certainly make sure we communicate that, but I don't anticipate any dramatic changes at this point.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And then secondly, on any sort of inflationary pressures that you are seeing on the regulated side and then how, if at all, that could actually help you with any municipal M&A because I'm assuming that those municipally owned systems also face the same pressures and that might exacerbate their need for funding. So if you could comment on these.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Yeah. I'll let Cheryl weigh in here on the impact potentially to municipal. Largely though on the inflation side, we are active in the regulatory process. So we'll be hopefully current in reflecting cost impacts to the business through the regulatory process, obviously it impacts our customers. So we do our best to maintain or hold those cost impacts down. We've been very successful in the supply chain side over the course of the year and certainly going into the future to be able to hold those cost increases down. And we think again, we've done so pretty successfully, so any real impacts ultimately to us or the customers should be mitigated.

On the municipal side and is it a driver for them to potentially push them over the edge to want to privatize, I think it's a good question. I think we'll see some reaction to that. We'll see some -- we'll certainly have conversations with some of these municipals on those additional pressures. I don't know that we've seen any real direct impacts yet or any sort of change in the dialogue yet, but I'll ask Cheryl to comment on if what her thoughts are around that topic.

A - Cheryl Norton {BIO 17107572 <GO>}

Yeah. Angie, I think it's just one more thing that piles on to those municipal systems that just kind of adds to the load that they're feeling right now. The regulatory environment is absolutely significant for putting pressure on those municipal systems, to try to find a better solution than operating their own systems. And I think this inflation piece and also the availability of pipe and chemicals and things like that can absolutely just add more pressure. But Susan is right in that we haven't seen a big push yet as a result directly of that, but anticipated adding to the load.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And if I may Susan, I know you said that you're sticking with the strategy that you've announced well back in -- that you announced back in October or November. Now -- but taking a step back given the recent pullback and valuations of other water utilities yours as well, unfortunately, do you actually think that there is that you could create some value through any larger strategic transactions involving public water utilities?

A - M. Susan Hardwick {BIO 16618718 <GO>}

Well, Angie, that's a difficult question to answer here. I'm just going to say what I said at the outset. We're very confident in this plan. We have a long track record of execution. We have continued to prepare for this plan and prepare for execution against this plan and that's what we're intending to do. We are always looking and thinking about the strategy and how it evolved. We have plenty of work to do with this plan and we're going to continue to execute against it.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. Thank you, and congrats, again.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Thanks, Angie.

Operator

(Operator Instructions) The next question comes from Julien Dumoulin-Smith with Bank of America. Please go ahead.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Hey, good morning. All my best to Walter here and congratulations, Susan. Appreciate the opportunity to connect.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Thanks, Julien.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

So, perhaps to kickoff here -- absolutely look forward to it. So, if I can, I think most of (inaudible) on Chester, just to come back to this conversation, I know that you all have indicated your relative confidence. Where does that stand as far as your involvement in that process and your continued confidence therein?

A - M. Susan Hardwick {BIO 16618718 <GO>}

Yeah. It's great question, Julien, obviously lot continuing to go on that particular system, and I'm going to ask Cheryl actually to comment on what our current thinking there is, which by the way has not changed much, but Cheryl?

A - Cheryl Norton {BIO 17107572 <GO>}

Yeah. It really hasn't changed Julien. We believe we bid on the system on the RFP and came in with the highest bid and it's really up to the receiver to decide what is the best thing for that community and we believe that the very strong bid puts us in a good spot to be able to close that deal.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Fair enough. Excellent. And Susan, maybe if I get to strategically or I mean I know the last couple questions kind of put it out there, but any new fingerprint that you're looking at in terms of a revised strategy [ph] or process. I know you covered to the top of the remarks here and in Q&A on M&A, but really, what I was thinking about is different states, geographies you're looking at entering to, I know that there's a variety of different legislative efforts that you highlighted in your prepared remarks earlier, but as you think about putting your fingerprints on the company here, and any revising non-state entry, et cetera or exit for that matter.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Yeah. Julien, I wouldn't say revised, I mean, I think our plan has been and always will be to continue to survey the landscape. We like the states that we're in now and you saw again us make some moves here to sort of refine our footprint to make sure we're in the jurisdictions that we think are most effective for us and we certainly think that's where we are now. We will continue as we always have to continue to evaluate other jurisdictions, both in terms of regulatory climate and legislative climate and the ability to enter a state in a material way.

We haven't changed our metrics around that, what we expect to be able to accumulate in a particular jurisdiction. We got to see ourselves to in our view at least 50,000 customers within a five-year period, that hasn't changed. But we are constantly looking at those -- at all those options. We're constantly evaluating the landscape in each of the other states that we don't currently operate in just to make sure that the current footprint is the one that is most effective for us. So it's an ongoing process and it has not changed.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Excellent. Thank you. I'll leave it there.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Thanks, Julien.

Operator

This concludes our question-and-answer session, which also concludes today's conference call. Thank you very much for attending. You may now disconnect.