Q3 2015 Earnings Call

Company Participants

- Gregory S. Panagos
- Linda G. Sullivan
- Susan N. Story
- Walter J. Lynch

Other Participants

- David A. Paz, Wolfe Research LLC
- Michael E. Gaugler, Janney Montgomery Scott LLC
- Richard A. Verdi, Ladenburg Thalmann & Co., Inc. (Broker)
- Ryan Michael Connors, Boenning & Scattergood, Inc. (Broker)

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the American Water's Third Quarter 2015 Earnings Conference Call. As a reminder this call is being recorded and is also being webcast with an accompanying slide presentation through the company's Investor Relations website. Following the earnings conference call, an audio archive of the call will be available through November 12, 2015, by dialing 412-317-0088 for U.S. and international callers. The access code for the replay is 10074632. The online archive of the webcast will be available through December 7, 2015, by accessing the Investor Relations page of the company's website located at www.amwater.com.

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

Gregory S. Panagos {BIO 17562275 <GO>}

Thank you, Frank, and good morning, everyone. Thank you for joining us for today's call. We'll do our best to keep the call to about an hour. At the end of our prepared remarks we'll open the call up for your questions.

During the course of this conference call, both in our prepared remarks and in answer to your questions, we may make statements related to future performance. Our statements represent reasonable estimates and assumptions. However these statements deal with future events. They are subject to numerous risks, uncertainties and other factors that may cause the actual performance of American Water to be materially different from the performance indicated or implied by such statements. These matters are set forth in the company's Form 10-K and in its other periodic SEC filings.

I encourage you to read our Form 10-Q for this quarter, which is on file with the SEC for a more detailed analysis of our financials. Also reconciliation tables for non-GAAP financial information discussed on this conference call can be found in the appendix of the slide deck for the call, which is located at the Investor Relations page of the company website. We'll be happy to answer any questions or provide further clarification, if needed, during our question-and-answer session. All statements in this call related to earnings and earnings per share refer to diluted earnings and earnings per share from continuing operations.

And now, I would like to turn the call over to American Waters' President and CEO, Susan Story.

Susan N. Story {BIO 3335156 <GO>}

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

Turning to slide five, we reported earnings of $0.96 per share for the third quarter, a 10.3% increase above the third quarter of 2014. Excluding the 2014 cost impact of the Freedom Industries chemical spill, third quarter year-to-date adjusted earnings increased 9.4% compared to the same period in 2014.

Our employees continue to deliver strong operational and financial results, reflected in our ongoing investment in our infrastructure, our improved operational efficiencies and the expansion of customers in our regulated and market-based businesses. These results continue our progress toward achieving our long-term growth goal of 7% to 10% EPS through 2019. Based on our performance to-date, we are narrowing our earnings guidance range to $2.60 to $2.65 per share.

Slide six highlights the progress we're making on our strategies across our businesses. We invested $970 million in capital year-to-date through September. The majority of this investment is in our regulated business, which is the core and foundation of our growth. These investments are mainly for infrastructure to continue providing safe, clean and reliable water services for our customers. Walter will talk further about our ongoing O&M efficiency efforts, which allow us to mitigate bill increases to our customers despite this critically needed capital investment.

In addition, we continue to invest in regulated acquisitions. Year-to-date, we've closed seven acquisitions totaling – or adding about 19,200 metered customers and we have 16 pending acquisitions, which, once approved and closed, will give us the opportunity to serve an additional 13,300 customers in several of our jurisdictions.

We closed the Keystone Clearwater Solutions acquisition in the third quarter. Keystone, while a separate subsidiary, is being reported as part of our market-based businesses. Last month we were very pleased to be awarded the contract to serve the military community at Vandenberg Air Force Base in California. We now serve 12 military installations across the country. We consider it an honor to provide our service men and women and their families with reliable, high-quality water and wastewater services for the next five decades and beyond.

Our Homeowner Services business continues to grow as well. Within the past couple of weeks, we received a notice of intent to award an exclusive contract with Georgetown County Water and Sewer District in South Carolina. Pending contract negotiations, we should be able to offer programs to their 22,000 eligible homeowners.

Looking forward, we remain confident in our ability to deliver on our long-term earnings per share growth goal of 7% to 10% through 2019. At the end of our prepared remarks, I'll spend just a few minutes talking about our Regulated business and how our investments and our positive financial performance benefit our customers and the communities we're privileged to serve. And with that, Walter will now give an update on our Regulated Businesses.

Walter J. Lynch {BIO 6064780 <GO>}

Thanks, Susan, and good morning, everyone. As Susan mentioned, our Regulated Businesses have delivered strong results year-to-date. We continue to improve our O&M efficiency ratio, as shown on slide eight. We've reached 35.8% for the 12 months ending September 2015. This is the result of a disciplined approach to cost management by our employees. We continue to make steady progress towards achieving our goal of 34% or less by 2020. Achieving sustainable O&M reductions is important to our strategy as it enables us to redeploy these cost savings in the capital investments in our water and wastewater infrastructure with minimal impact on our customer's bills.

A perfect example of our strategy in action is our recent New Jersey rate case order on slide nine. During the third quarter, the New Jersey Board of Public Utilities approved a 3% or $22 million annualized increase in water and wastewater revenues that became effective on September 21. Since our last rate case in 2012, the company invested more than $775 million to replace and upgrade our water and wastewater infrastructure including approximately 160 miles of water mains and connection pipes. During the same time, New Jersey American lowered their operating expenses by more than $19 million. Those cost reductions supported more than $125 million of infrastructure investment with no impact on customer bills.

Also last week in Virginia we filed a rate request for $8.7 million. The request seeks recovery of about $53 million in system investments made since our last rate case in 2012. Our operating expenses in Virginia have declined 2% since our last rate case reflecting our continued success in driving operating efficiencies. We use those cost savings to offset some of the revenue requirement requested for our capital improvements, which again minimizes rate impacts on our customers. We expect the decision in the next nine months. When we talk about O&M efficiency improvement, this is exactly what we mean, inventing to ensure reliable service while limiting the impact to what our customers pay.

Moving to California, our team continues to display leadership in dealing with the drought and we're certainly proud of all of their work to help our customers during this period. Overall five of our six districts are meeting the State Water Resources Control Board reduction targets. In Ventura accounting where customers are almost meeting their targets, we recently implemented Stage 3 conservation measures. These measures along with other customer outreach is helping us encourage conservation during this drought and we want to thank our customers in California who really stepped up to the challenge.

I'll give a quick update on our Monterey Peninsula Water Supply Project as well. Last month the California Coastal Commission approved an amendment to our permits to operate a test line well. This minor amendment allowed us to restart the well and continue to prove up the operational feasibility of subsurface intakes for this water supply project. The project is undergoing environmental and regulatory review by the California Public Utility Commission and we expect to start construction in the second quarter of 2017.

Lastly let me discuss the weather impacts during the quarter. As we mentioned in our second quarter call we experienced heavy rainfall in our central states during July. We saw this pattern continue in that region through August. Also in the quarter we experienced hot and dry conditions primarily in our northeast region. Due to our geographic diversity these varying weather conditions largely offset each other in the third quarter, so there was no net material impact on our financials.

Now, I'll turn the call over to Linda for more detail on our third quarter financial results.

Linda G. Sullivan {BIO 7300156 <GO>}

Thank you, Walter, and good morning, everyone.

In the third quarter, we continued to deliver strong financial results. As shown on slide 11, revenues were up 6% quarter-over-quarter and up 4% year-to-date. Earnings per share for the third quarter were $0.96, up 10% over the same period last year. Year-to-date earnings were $2.09 per share, which after adjusting for 2014 impact of the Freedom Industries chemical spill were up about 9% over the same period last year. In terms of business segment contribution, for the quarter the Regulated Businesses contributed earnings of $0.97 per share or an increase of about 10%.

Our Market-Based Businesses contributed $0.07 per share, an increase of about 17%. Parent interest and other, which is primarily interest expense on parent debt was a negative $0.08 per share for the quarter, relatively flat to the prior year. As Susan mentioned we closed the Keystone acquisition in the third quarter and the financial results of Keystone have been included in the Market-Based Business segment, the purchase price after purchase price adjustments was $133 million. As we've previously disclosed, we expect Keystone to be earnings neutral in 2015 and accretive to earnings in the first full year of operation.

Now I'll go over the different components of our third quarter earnings per share growth as shown on slide 12. In the third quarter we reported a $0.09 increase in earnings per share. Approximately, $0.05 of that increase was due to mild weather during the third quarter of 2014. As Walter mentioned, during the third quarter of this year, the financial impact of the varying weather conditions largely offset each other. As we had higher revenue of around $10 million from hot and dry conditions in the Northeast, which was offset by lower revenue of around the same amount from the wet weather experienced in our Central State.

Next the Regulated Businesses benefited from higher revenues of $0.04 per share mainly from authorized rate increases, from infrastructure charges and rate cases in a number of our regulated states and additional revenue from acquisition growth, partially offset by lower demand in California.

For the Market-Based Businesses, earnings per share were up a penny due to additional construction projects under our military contracts and the addition of two new military bases in the second half of 2014. We also had contract growth in our Homeowner Services business. Partially offsetting these improvements were higher depreciation and other cost of about a $0.01 per share, mainly due to growth associated with our infrastructure investment programs at the Regulated Businesses.

Now let me cover the regulatory highlights on Slide 13. We currently have three general rate cases in process, West Virginia, Missouri and Virginia for a combined annualized rate request of approximately $69.5 million. For rates effective since October 1 of last year through today, we received a total of approximately $77.5 million in additional annualized revenue from general rate cases, step increases and infrastructure charges. We encourage you to review the footnotes in the appendix for more information.

Slide 14 is a summary dashboard of our financial performance, which showed improvement across the Board. During the third quarter of 2015, we made investments of approximately $455 million, primarily for regulated infrastructure investments and the acquisition of Keystone Clear Water Solutions. Year-to-date we have invested a total of $970 million of which $793 million was for Regulated infrastructure investments and $44 million was for regulated acquisitions. For the year, we expect to invest $1.3 billion to $1.4 billion with almost $1.2 billion to improve our regulated water and wastewater systems.

Regulated infrastructure investments are projected to be about $100 million higher than we originally planned as we continue to optimize capital deployment under our infrastructure mechanisms. For the quarter our cash flow from operations increased approximately $48 million and year-to-date, $15 million primarily from earnings growth and the timing of working capital items.

Our adjusted return on equity for the past 12 months was 9.12%, an increase of approximately 48 basis points compared to the same period last year. We also paid a $0.34 quarterly cash dividend to our shareholders in September, which represented about a 10% increase compared to last year. And on October 30, the Board of Directors approved a $0.34 dividend per share to be paid on December 1. And as Susan explained, building on our strong financial performance year-to-date we are narrowing our 2015 earnings guidance from continuing operations to be in the upper end of our prior range, or $2.60 to $2.65 per share. And with that, I'll turn it back over to Susan.

Susan N. Story {BIO 3335156 <GO>}

Thanks, Linda. Before taking your questions, I'd like to spend a few minutes talking about how our investments and our strong performance benefit our customers and the communities we serve. As Linda mentioned, we plan to invest up to $1.4 billion in 2015 with almost $1.2 billion of that total to improve our regulated water and wastewater systems. So what does investing more than $1 billion a year mean to our customers and communities?

It means we replace up to 350 miles of pipe every year. To give you an idea of the size of our water pipe network, if you placed all of the pipe we manage end to end, it would stretch over 48,000 miles, nearly enough to go around the earth twice. It also means a strong water quality record. We are 20 times better than the industry average for meeting all drinking water requirements, and we've earned more awards from the EPA Partnership for Safe Water than any other water utility in the Nation. Why does this matter? Even though we serve about 15 million people across the country, we never forget that at the end of every pipeline there is a family depending on us to provide life's most essential ingredient.

Not only is investment in our water and wastewater systems critical to families, businesses, industry and fire protection, but that investment also provides jobs and economic benefits. According to the Water Research Foundation, $1 billion invested in water infrastructure creates approximately 16,000 jobs. So American Water's regulated infrastructure investment through 2019 will result in more than 80,000 new jobs in the communities we serve. We know that we have to be sensitive to the impact of cost increases to our customers, even for something as necessary as infrastructure replacement.

We also know, as Walter mentioned, that for every dollar in O&M we save, we can invest $6 of capital with no impact on our customer bills. By combining effective cost controls with regulatory mechanisms that smooth costs out, we can make a big infrastructure impact without a big bill impact. In fact, we have invested almost $700 million nationally in our DSIC-type programs in just 2013 and 2014, and all of that investment impacted customer bills by just $1 a month, on average. That's less than the cost of a loaf of bread, a quart of milk, and far less than what it costs you to get your own money from the general ATM machine, which is about $3 to $4 a transaction.

Across our footprint, most of our customers still pay about a penny per gallon of water. Our average family pays a little over $2 a day for all of their water needs, which is literally a ton of water a day delivered directly to their sinks, their showers and their washing machines. At the end of the day, we know that what we do in our customers' long-term best interest will also be in our investors' long-term interest; and we never lose that focus.

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

Q&A

Operator

Thank you, ma'am. We will now begin the question-and-answer session. And our first question comes from Ryan Connors from Boenning & Scattergood. Please go ahead.

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

Good morning, Ryan.

Q - Ryan Michael Connors {BIO 21817016 <GO>}

Great, good morning. Good morning, Susan. I had a question on the rate case in New Jersey. You've got $22 million in new rates there, which is about – I guess about a third of the $66 million you requested. Obviously, that's a very crude metric that I guess maybe gets too much attention sometimes. But that does seem to continue a trend where the gap between asked and received rates has been kind of growing. Can you just talk about why that's happening and what the ramifications of that are for the business?

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

Yes, Ryan, Walter here. Thanks for the question. Just to put a little clarification on it, the last time we filed a rate case in New Jersey, we didn't have a DISC mechanism. So in this case, the DISC mechanism is included, but you have to look to the revenue that was generated from it. If you do that and include the $22 million we came in, in excess of 50% of our filing. So that's the difference. We invested, as Susan said, a significant amount of money in New Jersey and in our infrastructure, and when you include that, with the outcome of the rate case, again we're in excess of 50%. So it's right in line where we've been historically.

Q - Ryan Michael Connors {BIO 21817016 <GO>}

I see. So the national trend then would be a function of the fact that DSICs are becoming more and more prevalent.

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

Absolutely.

Q - Ryan Michael Connors {BIO 21817016 <GO>}

Okay. Interesting. My other question was there were some fairly notable development yesterday with one of your peers in California basically saying that they're going to have to defer revenue recognition in the fourth quarter because their WRAM balances are increasing. I know you've had your own issues having to extend the collection period on your own WRAM balance. Can you talk about the situation in California related to the WRAM and the outlook and also maybe give us your take not only on how that impacts your business, but where you see the regulatory evolution going there, whether the drought creates any change in the regulatory situation in California?

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

Ryan, this is Linda. Let me start and talk first about the accounting issues around revenue recognition. So the accounting rules require that if revenue is extended – collection of revenue is extended beyond two years that you need to defer the equity component or the equity return of that revenue. And so this is really an accounting timing issue versus a collection issue. We did experience something similar in the third quarter when we requested and filed our application with the CPC to defer recovery in Monterey over a 20-year period and including a return. We have recorded that impact in our third quarter results and it was about a $5 million pre-tax impact.

Now in terms of the regulatory environment, I'll start and ask Susan if she would like to add to it, but really decoupling mechanisms were put into place in California to deal with situations like the severe drought that California is going through now so that you can align the customer conservation with the goals of the company, and so these decoupling mechanisms really align those goals and allow us to help our customers conserve in the long term.

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

Right, and I think Linda's exactly right. The only thing I would add is this is an extraordinary situation in California, and we all know that and we believe – we know that the Utility Commission, the companies, we're all trying to work together to find a way forward that's in the best interest of our customers and the companies and everyone involved.

Q - Ryan Michael Connors {BIO 21817016 <GO>}

And then while we're on California, one last one if I might sneak it in, is that in terms of return on equity you're at 9.99% in California. Most of your peers are at 9.47%, that's because you stewarded the automatic downward adjustment due to your credit rating situation there, but the credit standing continues to improve. So is there any chance that you could be re-trued up or trued down, I guess, to that level and talk about how that mechanism works and the ROE outlook for California. Thanks.

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

Absolutely, we're at 9.99% in that mechanism in its current formal extent through the end of 2016, and then we would go through the next cost of capital process in California to reset rates going forward.

Q - Ryan Michael Connors {BIO 21817016 <GO>}

Got it. Okay. Thanks for your time.

Operator

And our next question comes from Richard Verdi from Ladenburg Thalmann. Please go ahead sir.

Q - Richard A. Verdi {BIO 15139674 <GO>}

Good morning, everyone and nice quarter and thanks for taking my call here.

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

Hi, Richard.

Q - Richard A. Verdi {BIO 15139674 <GO>}

Just a quick, so just a quick follow-up question to Ryan's before I get into my question. The Pence or the New Jersey rate case outcome in combination with the DSIC, Walter you had mentioned it's in excess of 50%. We have that around 54.6%, does that sound about right?

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

Yes, that sounds about right Rich. Pretty precise.

Q - Richard A. Verdi {BIO 15139674 <GO>}

Okay, perfect. Okay and then Susan, a quick question for you surrounding the acquisition strategy. Somewhat recently you were quoted as saying American is going to ramp up its focus on the wastewater acquisition front. So can you just maybe talk a little bit about how you see this benefiting American Water?

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

Sure. I'll start and then Walter may want to add something to it. So one of the things that's interesting, and I know the national numbers are about 84% of Waters provided by public entities and about 98% of wastewater is, and what we find Rich is that of the 3.3 million metered customers we have that only about 150,000 of those are wastewater customers. So we know that we've got several communities around the country where we already serve water and someone else serves wastewater. So that's one piece. Then you add to that the fact that there is growing number of EPA consent decrees, you got an issue where a lot of the wastewater infrastructure is aging and needs investment and you have some communities who would prioritize other needed critical investments above their wastewater.

So far us the real value is in many of these places we already serve water. So to serve wastewater we know the communities. They know us. There are efficiencies we can gain because we already have offices there even though you would have different people doing some of the work. So we think it's just a natural progression. Then on top of that you add the fact that – and we just talked about California. When you look at water, it really is a single one-cycle for water. And in the past, where we separated potable water with stormwater and wastewater, those days are – they're starting to merge. So we believe that as the leading water utility in the country, we want to take a leadership role in looking at water as one water from start to finish, and especially given our strength and our research and development efforts that we got on the whole water cycle.

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

Yes, Walter here. Just to emphasize the operational synergies. We already have offices. We have relationships. We have employees that are proving service to our customers. To us it makes too much sense not to engage on the wastewater side and that's what we've been doing and we're getting really positive feedback in those communities where we do provide both services.

Q - Richard A. Verdi {BIO 15139674 <GO>}

Excellent. Okay. And next, thinking about the Water Infrastructure Protection Act recently implemented in New Jersey, clearly that's a great outcome for American and American's performed well from that Act, and now Chairman Powelson (27:04) in Pennsylvania is seeking to implement something similar. So if and when he does, when considering that both New Jersey and Pennsylvania in this situation will have attractive legislation, do you think that it may eventually result in American Water Mid-Atlantic region representing more than 50% of its current, where it's at currently or do you think you would try to exploit that Pennsylvania move, but then grow in other state to maintain that diversified geographic footprint?

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

I'll start and Walter may want to add. So number one, we value very much our geographical diversity and while we do look to grow in Pennsylvania and New Jersey, we're also looking to grow in the Midwest for example where we have a significant presence. So we do think this legislation and Walter and his folks have been key at providing research and information for those policymakers who were looking at different options to improve the economy in their areas. We think that it's important to have good legislation everywhere and we think it's good for the citizens and the people who are consumers of water and wastewater.

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

Yes, and WIPA is definitely a huge plus to accelerate acquisitions in New Jersey. If we get that in Pennsylvania, it will provide the same benefit, but we also have enabling legislation in many of our other states including many Midwestern states and some of this was tailored after the legislation we had in our Midwest states. So it looks very, very favorable in the Northeast, but we have the same favorable regulation in the Midwest.

Q - Richard A. Verdi {BIO 15139674 <GO>}

Okay. Great. Thank you for that color guys and last one for me, looking at the non-regulated side, in our view we see that Keystone acquisition is just a super move. That's a great move from our view. Is there anything else like that in the pipeline or, maybe better put, can you give us – just give us an update on the non-regulated acquisition – acquisitive activity strategy there?

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

Sure. So first of all, fundamentally, there is two things I want to say is that when we go into the Market-Based Businesses, we ensure that it leverages the core competencies that we have as a company. We're not going to be going out two and three steps beyond what our core competencies are, which is water, wastewater, stormwater, those type of efforts. I just want to make sure people understand that clearly.

The second thing is, as we said in our last earnings call, the Market-Based Businesses, which include all of the American Water enterprises lines of business and Keystone, we will not – we don't see that growing beyond 15% to 20% of earnings, and only toward the high end of that if it's regulated like in the military services. So I just want to say that upfront.

So in terms of opportunities, again, we're going to stick to our knitting, stay close to our core competencies. Where there are opportunities to, number one, leverage the expertise we have in water, wastewater, water treatment, infrastructure investment, those type of things, we will look at, but we also look at the risk profile of anything we do because we are extremely cognizant and dedicated to, at our core, we are a regulated utility and we want to ensure that any growth we have is smart growth.

Q - Richard A. Verdi {BIO 15139674 <GO>}

Okay. Great. Thank you, Susan. I appreciate it, guys, and great quarter once again.

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

Thank you.

Operator

Next question comes from Michael Gaugler from Janney Montgomery Scott. Please go ahead.

Q - Michael E. Gaugler {BIO 7139923 <GO>}

Good morning, everyone.

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

Good morning, Mike.

Q - Michael E. Gaugler {BIO 7139923 <GO>}

Just a couple of things. I would appreciate an update on the potential headquarter move and the timing implications in terms of the tax breaks, and then also your thoughts on Keystone Clearwater now that you've been in that business for a bit.

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

Mike, this is Linda. Let me start with the move to Camden. We are currently in the site selection process and we are continuing through that process. We are working to make sure that we have all of the tax issues handled appropriately with the City of Camden and we are very excited to be part of the revitalization of Camden.

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

On Keystone, so everyone, of course, on the call is aware that there are market conditions on oil and gas and, of course, from the negative side from the market is that the activity in the capital spending has been reduced somewhat. The number of rigs are down. And again, in the Marcellus and Utica, interestingly while we have the cheapest cost for natural gas drillers that also require more water, we know that there is an issue where the supply had seemed to take away capacity. So from the market issues that everyone is familiar with, we also are tracking this. We're tracking it with the business.

We also are very encouraged and we're following very closely the progression of the construction of the Takeaway Pipes, because we believe that whenever the Takeaway Pipelines are completed, that that is where – and I know that all of you know this, where we will see a resurgence in that particular area of the country for natural gas.

Now with that said, since we have bought Keystone and since we closed in July, there are some positives that are going on for us. Number one, it's interesting that as several of the E&P are looking at the current situation, they're also looking at water infrastructure that will be needed for the resurgence that is expected at the end of 2016 and into 2017. So we are in conversations looking at future activity, because there is a time period that we need to develop water infrastructure, which is critical for most of these wells.

Another thing that we see is that there are some near-term opportunities. With the E&Ps continuing to prioritize their capital for their core business, there is more of an interest of us taking a role into water infrastructure and water pipeline, including owning it, which would be a little longer term than some of the contracts they currently have; looking at construction ownership of storage and exchange facilities, and not just pipeline. And we're seeing that there is a renewed interest as the E&Ps have a goal of 100% water reuse and recycling. So we do the transport. So we're seeing really a pretty robust business on the transport to the recycling facilities to ensure extremely high levels of reuse and recycling.

And then, another positive that we've seen in the almost six months we've owned Keystone is that they are increasing their customer base significantly with the addition of several new large customers and we calculated that our market share of the water services in the Utica, Marcellus has increased from about 20% to 25%. So yes it's a difficult environment as we know, but being a water-focused subsidiary of ours, looking at solutions for that area we're seeing some bright spots for us. And we continue to, we said earlier when we purchased Keystone, we expect it to be EPS neutral in 2015 and to be accretive next year as Linda mentioned.

Q - Michael E. Gaugler {BIO 7139923 <GO>}

All right. Thanks.

Operator

Follow-up question from Richard Verdi from Ladenburg Thalmann. Please go ahead.

Q - Richard A. Verdi {BIO 15139674 <GO>}

Hi guys, thanks for letting me back in. Just a quick question on – just a follow-up to Michael's inquiry surrounding Keystone. And this might be a tough question right, I am just curious to see what the take is. When you look at the frac sand guys or the oilfield services players, it's up in the air when that energy space is going to recover. Some say it's going to be 2016, we might see a bottom in Q1 and then improvement the back of 2016. Some others say it won't even be until 2017, where there is improvement. But it sound like what you just said you expect it to be accretive in 2015.

So I'm kind of wondering, one, what maybe your outlook is there for, what may be Keystone's outlook is for that energy space and maybe what you guys are doing differently to ensure that that's going to be – that's accretive in 2016.

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

Yeah, Rich, thank you for this and so on December the 15th at our Analyst Day, the CEO of Keystone, Ned Wehler who has been in the business for years, and he is actually going to be part of our Investor day presentation and he is going to offer his insights that will give an additional map to see where everything is playing out. Again I think we can say some things now, but I think it would be better to wait till Investor Day and really talk to the expert. We're looking at a lot of different options. We're trying to be very practical and realistic, which is why in answer to Mike's question, I wanted to give both the positives but also the things we're very cautionary about. And so it will be interesting. We do have some thoughts at this time, but on December 15th, we fully expect that question to be asked and for Ned to give his thoughts about that.

Q - Richard A. Verdi {BIO 15139674 <GO>}

Okay. All right. Fair enough. Thank you, Susan.

Operator

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

Q - Ryan Michael Connors {BIO 21817016 <GO>}

Great. Thanks also for letting me in and again to figure out, come in with one more I have since there's time. So rising interest rate environment that we're likely to enter into here, as the Fed gets to raise rates, obviously the various commissions look at benchmark rates as a proxy for risk-free and there is interest in theory, that's a positive tailwind for ROEs. How does that impact what you do when you're asking – when you're filing rate cases and what you're asking for an ROE? Do you start to reflect that into higher requests for ROE as the Fed is getting ready to raise rates or talk to us about that dynamic?

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

Yes Ryan, this is Linda and generally what we have seen with regard to past trends, is that as interest rate rise that over time that it's correlated with increases in the return on equity and so I would expect that moving forward to the extent that interest rates improve that we would see similar trends.

Q - Ryan Michael Connors {BIO 21817016 <GO>}

Okay. But to you specific, is it typical to actually – when do you start building that into what you're asking for? Does that come later or is that something you started to do right here as we're sort of getting ready to enter into rising rate environment?

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

Right Ryan and really what we will do, typically most of our states have the cost of capital as part of the general rate case process. And so we would be looking across our states and determining the optimal time to go in for general rate case. We also have some states that have a separate cost of capital mechanism like California which has a set schedule, which we would be – which is set through 2016 and then we would be setting new rates for 2017. So it will depend on the jurisdiction and it will also depend on a multitude of factors that we look at in terms of the timing of our general rate case filings.

Q - Ryan Michael Connors {BIO 21817016 <GO>}

Interesting, well thanks for that.

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

Absolutely.

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

Thanks Ryan.

A - Gregory S. Panagos {BIO 17562275 <GO>}

Operator, do we have any more questions? Operator, are you there?

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

Maybe experiencing some technical difficulty.

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

Yeah, we can't hear anything. If you can hear us, we can't hear you.

Operator

Pardon me. The next person to ask a question is David Paz of Wolfe Research.

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

Okay. Great. Hi, David.

Q - David A. Paz {BIO 16573191 <GO>}

Good morning.

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

David, that's quite a dramatic kind of intro to your question.

Q - David A. Paz {BIO 16573191 <GO>}

Yeah, can't take credit for that one. But you may have actually addressed one of my questions on California, but just can you remind me when the cost of capital proceeding is like ended?

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

The cost of capital proceedings will be filed in the beginning of 2016. So about March of 2016.

Q - David A. Paz {BIO 16573191 <GO>}

Okay. And if you – it was extended once before, correct?

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

That's correct and it's extended through the end of 2016. We actually begin the filing in the first quarter of 2016 for cost of capital affected in 2017.

Q - David A. Paz {BIO 16573191 <GO>}

Right and just remind me, were there any changes to the mechanism when you extended it this last time versus the original I guess agreement?

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

No, it was extended in its current form.

Q - David A. Paz {BIO 16573191 <GO>}

Okay. And is there any chance for you guys to extend that another year, given that not much has changed on the rate side?

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

We're always looking at opportunities so that – and working with the Commission on these types of things as well as the other investor owned utilities in California.

Q - David A. Paz {BIO 16573191 <GO>}

Okay. Separately this year have you announced any new large regulated projects like water treatment plants or the like that, that were incremental to the plan you gave last year?

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

This is Walter, no, no, it's has been in line with what we've said last year. We just continue to upgrade our plants as part of our normal capital investment but no new plants in line.

Q - David A. Paz {BIO 16573191 <GO>}

Okay. And you'll give a 2016, 2020 capital plan in December.

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

That's correct.

Q - David A. Paz {BIO 16573191 <GO>}

Great. Thank you so much.

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

Thanks David.

Operator

And this concludes our question-and-answer session. I would now like to turn the conference back over to management for any closing remarks.

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

Thank you, Frank. We would like to thank everyone for participating in our call today. And as always if you have any questions, please call Greg or Durgesh and they'll be happy to help.

Before I let you go, I've mentioned it during the Q&A, I would like to remind you all that we're hosting our Investor Day at the Western Times Square in New York on December the 15 from 9 AM until noon. We will have a light breakfast beforehand and lunch available for afterwards. So if it's not the program that attracts you, hopefully the food will.

We will be discussing our plan for 2016 to 2020. We'll have added color around 2016. You'll hear updates and projections for our regulated business from Walter as he has already said, an update from Sharon Cameron on her plans for the American Water Enterprise's lines of business, homeowner services, military services and contract services. And as I mentioned before, you'll hear from the CEO of Keystone, Ned Wehler, who is going to offer his insight into that business and the market, and of course Linda will provide updates on our financial plans.

We hope all of you can attend. The session will be webcast and thanks again to everyone for listening and we'll see you in December.

Operator

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