

## Q3 2019 Earnings Call

### Company Participants

- Edward D. Vallejo, Vice President of Investor Relations
- M. Susan Hardwick, Executive Vice President and Chief Financial Officer
- Susan N. Story, President and Chief Executive Officer
- Unidentified Speaker
- Walter J. Lynch, Executive Vice President and Chief Operating Officer

### Other Participants

- David Peters, Analyst, Wolfe Research
- Durgesh Chopra, Analyst, Evercore
- Julien Dumoulin-Smith, Analyst, Bank of America
- Richard Verdi, Analyst, Coker & Palmer
- Shar Pourreza, Analyst, Guggenheim Securities

### Presentation

#### Operator

Good morning and welcome to the American Water's Third Quarter 2019 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 7th, 2019. US callers may access the audio archive toll free by dialing 1-877-344-7529. International callers may listen by dialing 1-412-317-0088. The access code for the replay is 10135909, the audio webcast archive will be available for one year on American Water's Investor Relations website at [ir.amwater.com/events](http://ir.amwater.com/events).

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

#### **Edward D. Vallejo** {BIO 16076814 <GO>}

Thank you, Alyssa, and good morning everyone, and thank you for joining us in today's call. So, during the course of this conference call, both in our prepared remarks and answers to your questions, we may make forward-looking statements that represent our expectations regarding our future performance or other future events. These statements are predictions based upon our current expectations, estimates and assumptions. However, since these estimates 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 on our Form 10-Q, each has filed with the SEC.

Reconciliations for non-GAAP financial information discussed on this conference call including adjusted income, adjusted earnings per share, adjusted return on equity in our adjusted regulated O&M efficiency ratio can be found in our earnings release and in the appendix of the slide deck for this call. Also, this slide deck has been posted to our Investor Relations page of our website. All statements in this call related to earnings and earnings per share referred to diluted earnings and earnings per share. At the end of our prepared remarks, we will of course open the call to your questions.

And now I will turn the call over to American Water's President and CEO, Susan Story.

**Susan N. Story** {BIO 3335156 <GO>}

Thanks, Ed. Good morning everyone and thanks for joining us. Today, our CFO, Susan Hardwick will cover our third quarter financial results and our COO, Walter Lynch will give key updates on our operations. American Water employees continue to deliver strong results. Let me highlight just a few of our third quarter accomplishments. We continue to have strong financial performance. Adjusted earnings were up 10.8% compared to last year's third quarter, and we saw growth in both our regulated and market-based businesses. In our regulated business, we've added more than 57,000 customer connections year-to-date. This includes 46,900 customers through closed acquisitions and 10,400 through organic growth in our existing service areas. We most recently closed on the water assets of Steelton Borough, Pennsylvania and Lake Station, Indiana as well as the wastewater assets of Exeter Township in Pennsylvania. We're excited to welcome our new customers, and our new employees. Additionally, in the coming months, we will welcome an additional 26,400 customer connections through agreements that are signed and pending.

Moving to our market-based businesses. We're extremely honored to be awarded Department of Defense contracts for the water and wastewater systems at Joint Base San Antonio in Texas, and the United States Military Academy at West Point, New York. Joint Base San Antonio includes Randolph Air Force Base, Fort Sam Houston, Camp Bullis, and Lackland Air Force Base. These installations support over 187,000 jobs across the state of Texas. The United States Military Academy at West Point is the oldest continually operated Army post in the United States. The campus is home to 4,400 cadets, and was once home to our own COO Walter Lynch, a West Point alumnus and Army veteran. The opportunity to expand our military footprint to 16 bases across the country is a testament to American Water's industry-leading water research, development, and operational excellence. It's a privilege to ensure the delivery of safe, clean and reliable water and wastewater services for our country's military members and their families. With this continued strong performance and our disciplined approach to our business, we are narrowing our 2019 adjusted EPS guidance to \$3.56 to \$3.64 per share, from \$3.54 to \$3.64.

Moving to Slide 6, the foundation for our earnings growth continues to be the capital investment, we make in our regulated operations, through September 30, we invested around \$1.3 billion, with about \$1.2 billion into our existing regulated infrastructure, and around \$85

million in regulated acquisition closings. We expect to invest approximately \$1.9 billion total for the full year, with projections of more than \$260 million for regulated acquisition closings, and around \$1.7 billion to address the continued and growing need for infrastructure investment across our footprint. Results for our market-based businesses are also strong contributing to both net income growth and cash flow generation given the capital-light nature of these businesses.

So in summary, we will continue to invest in our infrastructure, and we have line of sight to a 31.5% O&M efficiency ratio by 2023, which is key to ensuring affordability for our customers as we make these much needed investments. And finally, we remain on track to meet our 7% to 10% long-term earnings growth target. Now Walter will give a more detailed update on our Regulated business.

### **Walter J. Lynch** {BIO 6064780 <GO>}

Thanks, Susan and good morning everyone. Our regulated businesses had a strong third quarter making capital investments to ensure clean, safe and reliable water services. We also continue to improve our operating efficiencies to benefit our customers and grow our business through acquisitions. On Slide 8, let me touch briefly on the weather. As you recall, we had unusually wet weather in the second quarter of 2019, which led to a total quarter-over-quarter unfavorable impact of \$0.05. This quarter has been more typical and once again, you can see our geographic diversity helps mitigate weather variability. For example, this quarter, New Jersey American Water experience at or below average precipitation, which offset Missouri slightly above average precipitation. As a result, weather had no material impact on our revenues for the third quarter.

Turning to Slide 9 . Let's walk through some of the regulatory highlights. Starting with our two pending rate cases in Virginia and California. In November 2018, Virginia American Water filed a general rate case requesting an overall increase of \$5.6 million, driven by approximately \$98 million in infrastructure upgrades since April 2017. Interim rates became effective on May 1st, 2019, and we expect a decision in the first quarter of 2020. California American Water filed for new rates this past July. The case covers 2021 through 2023, and requests an increase in authorized revenue of \$46.6 million over three years, beginning with a \$26 million increase proposed for January 1st, 2021. The request seeks \$197 million for infrastructure improvements for the 2021 to 2022 capital test years. We expect the decision on this case in late 2020, with new rates to take effect by January 1st, 2021.

In other activities, several bills were recently signed into law in Indiana, by Governor Holcomb. First, House Bill 1406, known as the Water Infrastructure Funding Act, establishes the first state appropriation of \$20 million per year for water infrastructure investment. Paired with another bill, Senate Bill 4, this combined legislation supports regional water planning and the reduction of water loss caused by poor or aging infrastructure. The goal is to promote a consistent approach to providing clean and safe water across all water systems in Indiana. A third bill, Senate Bill 472, enhances Indiana's version of fair market value legislation by now including qualified non-municipal systems. Previously the legislation only cover distressed municipal systems. And in Pennsylvania, on October 3rd, the Pennsylvania Public Utility Commission approved our proposal to replace customer-owned lead service lines in accordance with Act 120. This Act authorizes the cost associated with the replacement of the customer-owned portion of lead service lines to be included in a regulated utilities rate base.

Turning to Slide 10. We continue to grow the size of our footprint with 19 acquisitions occurring in eight states, totaling 46,900 new customer connections. Earlier this month, Pennsylvania American Water completed the acquisition of both the Steelton Water and Exeter Wastewater systems. The Steelton Water system added approximately 2,400 new water connections. The sale of the water system will allow the Borough to eliminate its existing water debt and invest in capital projects. In Exeter, Pennsylvania, where we've been providing water service for more than 17 years, we welcome the approximately 9,000 wastewater customer connections.

According to Township Manager, John Granger, "the sale of the wastewater treatment plant and collection systems at the Pennsylvania American Water is a great benefit to current and future residents of Exeter. The plant and system were becoming an increasing burden on the Township as federal and state regulations were becoming too difficult for the township to manage." This is a great example of how communities are better simply because we're there. This marks Pennsylvania American Waters fifth acquisition in the state in 2019. Indiana American Water also closed on the Lake Station water system earlier this month, adding about 3,300 water connections to the existing Indiana customer base.

We also welcomed 10,400 new customer connections from organic growth to date and will welcome another 26,400 customer connections through 24 signed agreements in 10 states. As we've shared with you before, with a consistent pipeline of opportunities we see in the water and wastewater industry, we're confident in our disciplined growth strategy and our ability to provide solutions across the nation.

Turning to Slide 11. We continue to balance, making critical investments to ensure reliable service while limiting the impact to our customers' bills. In the first nine months, we have invested approximately \$1.2 billion in our existing regulated infrastructure. At the same time, we're making progress towards our long-term O&M efficiency goal of 31.5% by 2023. To put this effort into perspective, our adjusted O&M expenses are just slightly higher today than they were in 2010. However over the last nine years, we welcomed approximately 338,000 customer connections while expenses only increased at a compound annual growth rate of 0.6%. We're extremely proud of our employees' focus and commitment to controlling costs on behalf of our customers.

Moving to Slide 12. We're pleased that our new customer service site, My Water, is now live for all American Water customers nationwide. Customers are now able to access their accounts of this mobile friendly site. My Water allows customers to easily make payments, view their water usage history, and receive alert notifications from any location, 24 hours a day, seven days a week. We launched this new platform by listening to our customers, who told us they wanted to more easily manage their accounts online. Since the launch, we've received very positive customer feedback, especially on ease of use. This is just another great example of how our customers are at the center of everything we do.

With that, I'll turn the call over to Susan for more detail on our financial performance.

**M. Susan Hardwick** {BIO 16618718 <GO>}

Thank you, Walter and good morning everyone. Let me start on Slide 14 with a summary of results. Third quarter 2019 consolidated GAAP earnings were \$1.33 per share, compared to

\$1.04 per share in 2018. 2018 results included a \$0.06 gain from the sale of the majority of the contracts in our contract services group, and a 0.22 charge from the Keystone impairment. Excluding these two adjustments in 2018, adjusted earnings per share were up 10.8%, primarily driven by growth in the regulated business. The regulated business segment results were up \$0.12 per share, or an increase of 10.2% compared to 2018. The market-based business results were about flat, and the parent results improved \$0.01 per share compared to 2018. Our 2019 adjusted earnings through September 30 were \$2.88 per share, or a 10.3% increase over the same period last year. Our regulated businesses increased \$0.15 per share. Our market based businesses increased \$0.09 per share, and finally the parent results improved by \$0.03 per share year-over-year.

Moving to Slide 15. Let me walk through the details of the quarterly results by business. Regulated operations were up \$0.12 per share. In total, we had an \$0.11 per share increase from additional authorized revenue and surcharges to support infrastructure investments, acquisitions and organic growth. Also, O&M expense decreased \$0.02 per share for the quarter as a result of the continued focus on cost management and higher costs in the third quarter of 2018, related primarily to the New York American Water settlement. Depreciation and interest increased \$0.01 per share primarily to support regulated acquisition and investment growth. The market based business results for the quarter were similar to last year on continued strong performance. Finally, earnings of the parent were \$0.01 per share, reflective of the impact of a lower consolidated effective tax rate, offset somewhat by increased interest expense.

Moving to Slide 16. Nine months ended September 30th, 2019, adjusted EPS increased 10.3% year-over-year, even with the weather negatively impacting the second quarter of 2019. Many of the drivers of the variances in the quarter. Noted previously for the regulated business also explain the year-over-year results for market based businesses. The year-to-date improved results reflect, among other things, the addition of customers under new partnerships that homeowner services and growth from the 2018 additions of two bases in the military services group.

Moving on to Slide 17. It's been a very active year so far on the regulatory front. We have \$93 million in annualized new revenue this year. This includes 45 million from rate cases, and 48 million from infrastructure surcharges. As Walter noted, we have also filed requests and are awaiting final orders on two rate cases and into infrastructure surcharge proceedings, for a total annualized revenue request of \$41 million. The continued successful execution of our regulatory strategy is a key element of our ability to consistently deliver results.

Moving to Slide 18. Because of our strong performance and continued focus on execution, as Susan mentioned, we are narrowing our 2019 adjusted EPS guidance to \$3.56 to \$3.64 per share. Our previous guidance was \$3.54 to \$3.64 per share. We are also affirming our long-term earnings compounded annual growth expectation on an earnings per share basis to be in the top half of that 7% to 10% range.

Now moving on to Slide 17 -- Slide 19. As we noted in the release on October 29th, 2019, the company's Board of Directors declared a quarterly dividend of \$0.50 per share of common stock, payable on December 4th, 2019. This reflects the continuation of the 9.9% increase in the annual dividend declared by the Board on April 17th of 2019. We continue to be a top leader in dividend growth. We have grown our dividend at a compound annual growth rate of 10.1% over

the last five years, and we expect to continue the growth at the high end of that 7% to 10% range. We continue to deliver very strong consolidated results for the 12 months ended September 2019. Our total company consolidated return on equity is 10.4%. Our weighted average authorized regulated ROE stands at 9.8%. Regulatory execution, along with strong results from our market-based businesses, allows us to consistently deliver on our earnings commitment.

We believe that delivering on results combined with our strong earnings growth and superior dividend growth expectations continues to provide excellent value for our investors. And with that let me turn the call back over to Susan.

### **Susan N. Story** {BIO 3335156 <GO>}

Thanks, Susan. Many factors go into producing our consistent financial results. At the top of that list is the commitment to be the best at the fundamentals of the business. One of the most basic things we have to do with the water utility is the quality of the over 1 billion gallons of water we provide every day throughout the United States, and whether you call it our purpose our mission or just part of ESG. We know that if we don't deliver water that is safe and reliable, then nothing else we do matters.

You see on this slide just a few of the headlines we're all reading about, threats to the safety of drinking water, including lead, Legionella, P5, and cyanotoxins. These are real threats that require expert and knowledgeable people and organizations who have the breadth, depth, and experience to ensure the safety of the critical human need of water. And at American Water, we never forget that at the end of every water pipe there is a family depending on us to provide this critical need, and at every fire hydrant lives could depend on the right pressure in volumes, and that every wastewater plant serves as a shield against potential disease, and every community should be stronger because we're there. And at the end of the day, we also know that what we do in our customers' and communities best long-term interests will also be in our investors' best long-term interests, and that's what we believe it means to be a truly sustainable company.

I want to close our prepared remarks by saying how much our hearts go out to the millions of people who are affected by the horrific fires in California, and how much we are in all of the amazing work being done around the clock by the incredibly brave and talented firefighters. Our California American Water employees have also been working 24-7 to keep water service to our customers there when the power is out. We're using backup mobile and permanent generators. We're also using remote monitoring for our facilities when they are under mandatory evacuations, so we can minimize the hardship our customers may be facing during these difficult times. We were able to maintain service the entire time during the Kincaid fire and power outages, which affected two of our smaller operations in Geyserville, with approximately 300 customer connections, and Larkfield with approximately 2,100 connections. Our infrastructure assets have not been damaged.

I just want to publicly thank our hard-working employees who have truly kept the water flowing to our customers under these difficult conditions.

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

## Questions And Answers

### Operator

(Operator Instructions) Our first question today comes from Shar Pourreza of Guggenheim Securities.

. Please go ahead.

### Q - Shar Pourreza

Hey, good morning guys.

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

Morning, Shar.

### Q - Shar Pourreza

Susan, can you just touch a little bit on sort of some of the publicly available data in the media that we're seeing around JEA and sort of your interest there? Maybe just a high-level structure of your bid, because it does have an electric business so curious if you're bidding for the entire system or just the water portion of it, and just how you're sort of thinking about that process, because it's actually turning out to be a little bit more competitive than we originally thought.

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

So Shar, one thing that I will remind everybody is that JEA has publicly announced it would be in the next round of participation and we're very respectful of JEA and their process and so we can't really comment any further on anything additional about JEA. And all I will say is that we've not made any changes to our previously-communicated business model strategy.

### Q - Shar Pourreza

Got it. And then just maybe it's somewhat of a large transaction. Is there any disclosures, assuming that you're the winning bidder, how you would finance that transaction?

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

Yeah, we really can't comment about anything on the process at this point.

### Q - Shar Pourreza

Okay, got it. That's helpful. And then just around the military services, congrats Walter on West Point and obviously the Joint Base San Antonio deals. Is there anything else for the balance of

the year that we should sort of be thinking about? And maybe just quickly on how we're thinking about the opportunity set?

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

You know at one point, we had said we expected an award of up to three bases. We don't like to predict what the Department of Defense will do. The two that were awarded this year that we won, both came in September. We're not sure if there will be any others that are awarded. We do currently have five outstanding RFPs that we expect over the next one, two, three, four, five years. We do think there may be some that are awarded in 2020.

**Q - Shar Pourreza**

Got it, got it. And then just lastly on California. Is there any remaining approvals around the desalination project, there has been, I guess a little bit of push back at the local level, but is there anything. Do you guys need from a permit or approvals to sort of move forward.

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

Hi. Shar, Walter here. We need the approval from the California Coastal Commission their next meeting is scheduled on November 14 and they're going to take it up at that meeting. So, that's the next approval that we need.

**Q - Shar Pourreza**

Terrific. Thanks, guys, congrats on the results today.

**A - Unidentified Speaker**

Thanks. Shar.

**Operator**

The next question today comes from Julien Dumoulin Smith of Bank of America. Please go ahead.

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

Hey, good morning, team.

**A - Unidentified Speaker**

Good morning, Julien.

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



Hey, so quick question, can you elaborate a little bit more on Indiana and the prospective impacts of any legislation in that state to get going here?

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

Well, we're really encouraged by legislation. That's why I wanted to highlight it on the call. We think it will open up more opportunities, and I think there is a recognition that American Water can play a role there in providing water services for communities are having trouble doing it on their own. So it's consistent with legislation that's been in Indiana and across the country, about how we can play a role to help the communities.

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

But just in terms of its translating back to more tangible opportunities, it's still a little bit on the wait and see?

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

Yes, I mean well, we think that there'll be more discussions, but it's going to take time to work this through and have the communities realize that they do have these options. But it's just part of the overall favorable legislation that we're seeing across the country, because again, I think legislators are realizing that we can play a significant role in helping these communities.

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

Excellent. And then can you talk a little bit more. We've seen some headlines on Millburn, New Jersey. Can you clarify a little bit, what's going on there? I mean, again, I don't want to put too many words out there, but just put some context around it perhaps?

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

Specifically about what, Julien?

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

There were some media articles out there about water quality, so I wanted to just check in on that.

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

Oh sure, right. So I think what you're referring to is, there is a group called the Environmental Working Group that, rather than looking at EPA guidelines and regulations or state regulation, or even some of the unregulated contaminants that EPA is looking at, I think they have come up with some of their own standards and they've run stories that, gee, even though we have all these water quality results, they're not living up to whatever standard this group has decided is appropriate. So I mean, our response to that is that we take water quality and safety very seriously. The EPA establishes drinking water standards to protect the public health. We treat and deliver water that is meets or surpasses every one of those, and in fact, the EPA has a

special program that's called the Unregulated Contaminant Monitoring Rule, which looks at another 40 contaminants that really aren't regulated, but we voluntarily have adopted those so that they can look and see what the impacts of those are. We meet or surpass all of our states.

At the end of the day, there are a lot of groups out there who may decide that they're going to set their own goals and their own policies, but we really can't follow what every individual group does along those lines. So, but we are meeting all of the EPA, we are voluntarily adopting 40 that aren't even regulated but that we're continuing to monitor, and we're acting as if they're regulated, and meeting all state requirements.

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

Excellent. Thank you so much for the clarity.

## **Operator**

The next question today comes from Durgesh Chopra of Evercore. Please go ahead.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

Hey, good morning, team.

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

Good morning, Durgesh.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

Good morning, Susan. Just a follow-up on Shar's question on the military bases, congratulations on the win there. What's the, can you just help us think about the size of those bases relative to the existing fleet of bases that you have currently? And how should we think about margins and revenues coming in? Is it more sort of a 12 to 16 months lag from here on?

## **A - Unidentified Speaker**

Yeah. So Durgesh, Joint Base San Antonio, because it is comprised of two Army and two Air Force Bases, I believe is the largest that we have in our 16 bases. In terms of the 50 year, over 700 million revenue, it's the largest that we've had. And West Point is a nice-sized military installation also. We do know that just like across the US, where there are infrastructure needs, we're finding that the military bases, that a lot of their infrastructure is from right after World War II when most of the military bases were built. So if you remember, we make money three ways with the military bases. There is the 50-year O&M contract, then when we take over there is typically upgrades we need to make. And then any future projects that are capital or working capital on these bases, we then can add that as part of the O&M and we get paid to do those, plus a fee.

So what we're finding is the military bases also need infrastructure upgrades and investment, just like the rest of the country does. So we're looking at these in terms of all three of those areas. So we're very pleased in Texas, we have Fort Hood, which is also, I believe, one of the top two or three largest bases we have. So it's very exciting to us to be able to grow in that respect. And then we look, and the Air Force and the Army continue to be quite active. There's a lot of opportunity in Navy, we believe. They have really not done much privatization. So we're stepping back, looking at the bases and facilities across the country. Again, we have five outstanding RFPs that we're already in the middle of the process and we're looking to any new ones that may come up in the next year.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

Thanks, Susan. What about the margins? I guess I was really asking that the margins from the two bases that were just awarded this past quarter, when should we model those hitting the bottom line? Is it 12 to 16 months out from here, or longer than that?

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

So first of all, we don't talk about margins. However, it's a great point while technically we assume these contracts on September 30th, there is pretty much a standard eight-month transition for each of these bases, and by June 30th of next year we will be fully operational on those bases with the full amount of revenue that we get from those bases at that point.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

Awesome, that's great, and then just one final.

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

I'm sorry, June 1st, not June 30th.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

Okay, perfect. And then just one quick clarification. Did we lowered the capex guidance for this year? I'm not sure if I'm reading this correctly.

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

No, no. And you know what? So it may be a little confusing. What we did on the chart is we broke out regulated acquisitions capital from the infrastructure. So we are still looking at around 1.9 billion, which is what we had guided to. So it's 1.9 billion total, and what we expect that break down to be is around \$1.7 billion into our existing regulated infrastructure, and probably 250 million, 260 million on regulated acquisitions.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

Awesome. Thank you so much, that's super helpful.

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

Thanks, Durgesh.

**Operator**

Our last question today comes from Richard Verdi of Coker & Palmer. Please go ahead.

**Q - Richard Verdi** {BIO 15139674 <GO>}

Hi, good morning, everyone. Thank you for taking my call, and nice quarter as well. Thank you.

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

Thank you, Rich.

**Q - Richard Verdi** {BIO 15139674 <GO>}

Thanks, Susan. So I'm quite clear on things, and some of my other questions have been answered, but I do want to actually revert back to a question I would periodically ask the past, for an update due to some of the events that transpired during the quarter. And to avoid being granular, I'm going to ask this is on a very high level. So when we think about the company's portfolio, obviously it has a nice portfolio of states, given the quarter report, given quarterly reports going back for many quarters. But that doesn't mean that there's not opportunity in states outside the portfolio. On the other hand, the states where the company has a footprint are very compelling from a need to upgrade infrastructure perspective, and also on the regulatory front. So moving forward in the near-to-intermediate-term is a strategy may be more to work within the states in which the company operates, and try to expand within those states? Or could we maybe expect the company to more and more announce it's of trying to enter other states?

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

Hi, Rich. Walter here. It's really -- it's really both. We continue to invest in our infrastructure in the states where we operate. We continue to look for opportunities in those states, but we also look outside our footprint. And for us to enter a new state, we really need a good business environment, a good regulatory environment, and then the opportunity to grow to a certain size because we just don't want to buy a small system and just be, just have that system. So we want to be able to expand in the state. So we're looking at that, and we actively look at that, but we do both. And as far as growth goes inside, our growth, we're investing, as we said, 1.7 billion this year and we're going to be spending over \$250 million to acquire systems in our footprint, which is I think tremendous and just shows that the dedication and the value that we're providing to these communities.

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

And what is exactly right. And to remind many of you and I think we have said this in the past, when we look at and we do have a corporate business development group and we're always looking at every state across the country. We actually have them kind of in a looking at the regulatory environment. The business environment, but the thing that typically will slow us down from going into new state is we believe it's important that within five years. We have 50,000 customer connections because part of our brand is affordability and the fact that we're looking at O&M efficiency and if you just have a couple of 3,000 in a state is very hard to get those efficiencies. So we're looking at whether we would go into a new state. Those are kind of the three gates that we have, that we would go through.

**Q - Richard Verdi** {BIO 15139674 <GO>}

Okay, that's great, I appreciate the color, guys. Thank you. And great quarter again. Thank you very much.

**A - Unidentified Speaker**

Thanks, Rich.

**Operator**

The next question today comes from David Peters of Wolfe Research. Please go ahead.

**Q - David Peters** {BIO 20551535 <GO>}

Yeah. Hey, good morning.

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

Good morning.

**Q - David Peters** {BIO 20551535 <GO>}

Just, just back to the desal project in California. I know you guys mentioned you still need the permits to get approved there, but just given that the to the staff recommended denial, can you maybe just provide a little bit more color? And I guess if you were to not get the permits, how does that kind of impact the project and the capital plan going forward?

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

Yeah, I'll take that question. This is Walter. The primary reason that the staff voted no was they see the expansion of the Pure Water Monterey Recycling Project is capable of providing sufficient water to meet the future demands. We don't agree with that, and it's actually not in line with what the PUC discovered as well, as far as the future demand. So that's the real area of contention. And so, at the November 14th hearing and meeting, we're going to be putting our views forward on that. But I mean, that's where the disagreement comes in. And we actually had an environmental impact report that stated the demand was much higher as well.

**Q - David Peters** {BIO 20551535 <GO>}

Great. And just to the extent that I guess it were to not go forward, the capital plan, I guess, the expectation there is that you would just kind of back-fill any kind of capex that were lost?

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

Yes, that's right.

**Q - David Peters** {BIO 20551535 <GO>}

Great, thanks.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Susan Story for any closing remarks.

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

Thank you, Alyssa. Thank you all for participating in our call today. Please note that we value you as our investor owners, and as the financial analysts who research our company for the benefit of your clients and their futures, we always want to be open and transparent in all of our discussions and dealings with you, so you can have confidence in your decisions around your investments in our stock.

If you've not been able to get your question out or if we haven't answer them thoroughly, please call Ed or Ralph and they'll be happy to help. And we're very excited that while we've been the only water utility which was an EEI Associate Member for the past three years, we're very pleased that EEI has added a new category of strategic partners for water utilities. And because of this, we will be attending our first EEI Financial Conference in a couple of weeks, and we'll see many of you there. Also, we will be hosting our Investor Day on Wednesday, December 11th, in New York City. We look forward to seeing you all there. Expect an invitation very soon from our IR team. Thanks again for listening.

**Operator**

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

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