Q3 2020 Earnings Call

Company Participants

- Ed Vallejo, Vice President, Investor Relations
- Susan Hardwick, Chief Financial Officer
- Susan Hsiong, Director, Business Development and Lifecycle Management
- Walter Lynch, President, Chief Executive Officer
- Walter P. Mullen, Corporate Development Officer

Other Participants

- Angie Storozynski, Seaport Global
- Insoo Kim, Goldman Sachs
- Jonathan Rider, Wells Fargo
- Ryan Greenwald, Bank of America

Presentation

Operator

Good morning, and welcome to American Water's Third Quarter 2020 Earnings Conference Call. As a reminder, this call is being recorded and 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, 2020. U.S. 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 replay is 10149253. The audio webcast archive will be available for one year on American Water's investor relations website at ir.amwater.com/events.

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

Ed Vallejo {BIO 16076814 <GO>}

Thank you, Matt, and good morning, everyone. And thank you for joining us for today's call. At the end of our prepared remarks, we will, as usual, open the call for your questions. During this conference call, both in our prepared remarks and in 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 statements deal with future events, they are subject to numerous known and no-known risks, uncertainties and other factors they may cause actual results to be material be different from the results indicated or implied by such statements.

Additional information regarding these regarding these risk, uncertainties and other factors as well as a more detailed analysis of our financials and other important information is provided in the earnings release in our September 30, 2020 Form 10-Q each has filed with the SEC. Reconciliations for non-GAAP financial information discussed on this earnings conference call, specifically O&M efficiency ratio, and return on equity can be found in our earnings release and in the appendix of the slide decks for this call.

Also this let is -- this slide deck has been posted to our investor relations page on our website. All statements in this call related to earnings and earnings per share, refer to diluted earnings and earnings per share. And I should note that consistent with our efforts to ensure the safety and health of our team. We are again conducting this call while practicing social distancing and from remote locations. As an example, Walter and Susan remain in separate locations. If for any reason technical issues do arise, Walter will take over and lead us through the full presentation.

And with that, I will turn the call over to American Water's President and CEO, Walter Lynch.

Walter Lynch {BIO 6064780 <GO>}

Thanks, Ed. Good morning, everyone and thanks for joining us. We have a lot to cover today. I'll start with a few comments on the national election, then move to key updates on our business including our continued focus on the implications of COVID-19. Susan will then provide a more detailed review of our third quarter and year-to-date financial results along with other updates.

Let me start with Tuesday's election. American Water has and will continue to work with both sides of the aisle and constructive water policy. Water and wastewater infrastructure remain a bipartisan issue. It will stay engage with leaders at the state and federal level on this issue on behalf of our customers. We continue to believe that investment in the country's water and wastewater infrastructure is important. Support of legislation and regulation are also critical to ensure customer bills are affordable.

Let's move to Slide 5 and our third quarter results. The employees of American Water delivered solid results and further strengthen our low risk profile and predictable growth story. Our results are driven by the continued execution of our strategies.

Our third quarter 2020 earnings per share were up 9.8% compared to third quarter 2019. We invested capital of $1.38 billion in the first three quarters of 2020, which is 10.4% increase over the same period last year. We balance that investment through a focused effort to control costs as we work towards our long-term O&M efficiency goal of 31.3% by 2024. We've added more than 47,000 customer connections to-date through closed inorganic growth, and look forward to welcoming an additional 19,000 customer connections through pending acquisitions, most of which we expect to close in 2021.

As it relates to the ongoing COVID-19 pandemic, safety continues to be our top priority. Susan will give more detail in a minute. But, as you saw in our 10-Q, residential demand continued higher and we saw some rebound in commercial demand as businesses started to reopen. As a result of this higher demand in the third quarter, we saw an estimated favorable impact of $0.03 per share, will continue to assess the situation across our service territory. Recognizing that it's difficult to predict the impact, we currently anticipate a full year unfavorable $0.03 to $0.06 per share from the COVID-19 pandemic.

Also, include in the results, is an estimated $0.06 per share favorable impact in 2020 from hotter drier weather across some of our regulated states. This compares to $0.04 per share unfavorable impact for the same period in 2019, from wetter than normal conditions in both the Midwest and Northeast.

Moving to our market based businesses. We were very proud to announce that our military services group was awarded the contract for the operation and maintenance of the water and wastewater utility systems at Joint Base Lewis-McChord in Washington state. We're now honor to provide water and wastewater services to more than 425,000 military men, women and their families at 17 installations across installations across the United States.

Moving the Slide 6. The foundation of our earnings growth continues to be the capital investment we make on our regulated operations. We plan to invest $20 billion to $22 billion in capital of the next 10 years to ensure the quality and reliability of our services, and to bring water and wastewater solutions to communities across the country.

We're increasing our 2020 earnings range to $3.87 to $3.93 per share, up from $3.79 to $3.89 per share. This reflects the favorable weather in the quarter. We're also affirming our long-term EPS compound annual growth rate in the 7% to 10% range. Also consistent with our previous dividend guidance. On October 26, our Board of Directors declared a quarterly cash dividend of $0.55 per share of common stock, payable on December 2, 2020.

Turning the Slide 7, let's go through some of the regulatory highlights of the third quarter 2020. We currently have five pending rate cases, and I'll cover the more significant development since our last call. Last week, the New Jersey Board of Public Utilities approve the settlement between the New Jersey American Water, BPU staff and New Jersey Division of Rate Counsel for new water and wastewater rates. The new rates represent $39 million annual increase in water and wastewater revenues. In a separate proceeding, the BPU also approved a customer credit associate with the Tax Cuts and Jobs Act that will offset the rate increase for the average residential customer through August 31, 2021.

While the customer credit will benefit customer bills, it will have no earnings impact in New Jersey American Water as its offset by lower tax expense during this period. The company's rate case was driven by more than $1 billion in infrastructure investment since the last rate case.

Last week, Pennsylvania American Water and the Pennsylvania Public Utility Commission Bureau of Investigation and Enforcement entered into a settlement agreement, providing for a total annualized revenue increase of $70.5 million over a two-year period. The terms of the proposed settlement have been presented for review to the PUC Administrative Law Judge. Until the Administrative Law Judge and commission are able to review the proposed settlement and render their decisions, it would be premature to discuss the terms of the settlement any further.

As you recall, Pennsylvania American Water's general rate case requested $92 million in the first year, and $46 million in the second year. Pennsylvania American Water will have invested $1.6

billion in infrastructure upgrades for the four-year period of 2019 through 2022. We also have pending rate cases in Missouri, Iowa, California and Virginia, and those cases are moving along on schedule.

Also in California, the California Public Utility Commission released the decision in September, under its low income rate payer assistance program rule making. The decision will require California American Water to file a proposal to alter its water revenue adjustment mechanism, or RAM, in its next general rate case filing in 2022, which would become effective in January, 2024. California American Water has filed an application for a rehearing of the decision.

Finally, in September and after careful consideration, California American Water with drill portion of its application at the California Coastal Commission for the Monterey Peninsula water supply project, in an effort to further educate stakeholders on environmental and water supply benefits of the project. The company will be resubmitting its application in the near future, and when submitted by Statute, the California Coastal Commission would have 180 days to process after redeems the application complete.

Lastly, regarding the sale of New York American Water. Last week, the governor announced proposed legislation that would include a PSC study of a public takeover option. We will review the legislation when a bill is introduced.

We still firmly believe the sale of New York American Water to Liberty is in the best interest of our customers and will continue to take the neatest steps to close the transaction in early 2021.

Regarding state legislation, we've seen multiple states take action to help tackle water and wastewater challenges. In Indiana gestation past that authorizes recovery for above ground infrastructure without a full rate case. And separate legislation passed that establishes an appraisal process for non-municipal utilities, to establish fair market value and a reasonable purchase price. Iowa amended legislation that gives the Iowa Utilities Board, 180 days to approve acquisitions, and allow systems to qualify as a distress system when they don't have a certified operator. Virginia also sign its version of fair market value legislation into law this year. And West Virginia passed a bill that allows for expanded asset valuation combined water and wastewater rate-making, and expansion of how municipalities can use proceeds from the sale of a water or wastewater system.

Moving on to Slide 8. In addition to legislative action to help community solve water and wastewater challenges, we believe our commitment to putting customers first is key to growing our regulated footprint. As I mentioned, so far in 2020, we've closed on 20 acquisitions in nine different states, adding approximately 360,200 new customer connections. We've also added approximately 10,900 customer connections to organic growth through 9-months. We look forward to adding another 19,000 customer connections to currently signed agreements in seven states.

Also, the pipeline of opportunities we've noted, are resulted increased conversations we're having across our footprint, with communities looking for solutions to water and wastewater challenges. These opportunities are in various stages of development. And as you know, the process can take multiple years.

We know that many communities are facing unprecedented challenges now. And our mission is to help make those communities better because we're there. This includes our recent acquisitions of the city of Jerseyville water and wastewater system in Illinois and the long hill sewer system in New Jersey. According to the city of Jerseyville, Mayor, William Russell quote, we can trust that our water and wastewater systems are in professional caring hands, end quote.

Moving on to Slide 9. Customers remain at the center of every decision we make. This means smart investments balanced by efficient operations and capital deployment. For the 12-month period, ending September 30, 2020, our O&M efficiency ratio improve to 34.2%, compared to 34.8% for the 12-month period ended September 30, 2019. Our adjusted O&M expenses are just slightly higher today than they were in 2010. Since then, we've added approximately 317,000 customer connections while expenses only increased at a compound annual growth rate of 0.9%. This is incredible work by our employees.

Finally, before I turn the call over to Susan, I want to thank all American Water employees for their commitment to safety as we continue to provide essential services during this pandemic. I also want to send a special thanks to our employees in California, who once again are safely and successfully providing critical water service as that state deals with catastrophic wildfires.

With that, let me turn it over to Susan.

Susan Hardwick {BIO 16618718 <GO>}

Thanks, Walter, and good morning, everyone. Let's start on Slide 11, with a bit more detail on results for the quarter. Third quarter 2020 consolidated earnings were $1.46 per share, compared to $1.33 per share in 2019. As Walter mentioned, included in earnings, is an estimated $0.06 per share favorable weather impact. The regulated business segment results, increased $0.14 per share or an increase of 10.8% compared to 2019 earnings. The market based business results were flat to prior year, and the parent company decreased $0.01 per share compared to the third quarter of 2019.

Our 2020 earnings through September 30, were $3.11 per share or 7.6% increase over the same period last year. Results for the 9-months period include an estimated $0.10 per share increase year-over-year from warmer and drier than normal weather in the third quarter of 2020, versus wetter than normal conditions in the second quarter of 2019.

Also for the year-to-date results reflect $0.04 per share for depreciation not recorded as required by assets held for sale accounting, and an estimated $0.02 per share unfavorable impact from the COVID-19 pandemic. Our regulated businesses increased $0.32 per share. Our market based businesses increased $0.02 per share, and finally, the parent results decreased by $0.12 per share year-over-year, primarily due to higher interest expense to support growth in the regulated business and the sale of a legacy investment in 2019.

Moving to Slide 12, let me walk you through the third quarter results by business. The regulated operations increased $0.11 per share, before considering the impact of the COVID-19 pandemic for the quarter. We saw a $0.16 per share increase from additional authorized revenue and surcharges to support infrastructure investments, acquisitions and inorganic growth. As I mentioned previously, results reflect an estimated $0.06 per share increase from favorable weather in various parts of our service territory.

O&M expense increased by $0.06 per share and depreciation increased $0.05 per share, net of the $0.01 per share for depreciation not recorded as required by assets held for sale accounting.

The market based business third quarter results in 2020 were consistent with 2019 and the parent results decreased $0.01 per share reflecting higher interest expense. And lastly, there was an estimated $0.03 per share favorable net impacts on the COVID-19 pandemic as demand revenues in the regulated business improved, primarily in the residential customer class.

During the quarter, we saw residential demand increased 13.6%, the increase reflects the impact of weather, normal changes in demand, growth and certainly the impact of more stay-at-home activities.

Further, during the quarter, we saw a commercial and industrial volumes improve to nearly flat year-over-year, reflective of what we expect is, at least, a partial recovery as local communities began to reopen. Recall, we saw commercial volumes down 10.3% through the second quarter.

In the third quarter, we have seen the impacts of the pandemic on the homeowner services group from delays and new partnerships and a launch of new products. And we started to see some recovery with two new partnership adds in the third quarter as companies are able to start to prioritize normal operations. And the ability to fully estimate the impact of the pandemic is challenging, as Walter said, but the anecdotal information from our state teams and our market based business team validates the trends we have seen in the third quarter.

Moving to Slide 13. 9 months EPS increased 7.6% year-over-year, regulated operations increased $0.32 per share for the period. And we saw $0.48 per share increased from additional authorized revenue, and an estimated $0.10 per share increased from weather year-over-year. O&M expense increased by $0.16 per share and depreciation increased $0.10 per share, net of the $0.04 per share for depreciation not recorded on assets held for sale.

The market based business has increased $0.04 per share due to Joint Base San Antonio and the U.S. Military Academy at West Point New York and going into full operation as of June 1, 2020 for military services as well as price increases in organic growth in homeowner services.

Parent results decreased $0.12 per share, largely driven by $0.03 per share due to the sale of a legacy investment in 2019, and $0.05 per share increase in interest expense. The estimated net impact of the COVID-19 pandemic is $0.02 per share unfavorable for the year-to-date period.

As mentioned in the regulated business, increased demand in the residential customer class has largely offset decreases in revenue from the commercial and industrial classes today. So the second quarter trend was a bit more negative as we discussed our initial intuition was that this offset would ultimately be the case. The unknown remains though as we -- as to how long and to what degree the pandemic continues. As we continue to watch these rate case -- these case rates increase in many of our territories, is possible that additional restrictions are put in place that could again negatively impact demand for our commercial customers.

Moving on to Slide 14. The continued successful execution of our regulatory strategy is a key element of our ability to consistently deliver financial results. As of October 31, the regulated business received $127 million in annualized new revenues in 2020. This includes $57 million from the -- from rate cases, including step increases $70 million from infrastructure surcharges, included in this numbers the outcome from our most rate case in New Jersey as Walter mentioned at the start of the call.

We have also filed requests and are awaiting final orders on the five rate case as previously discussed by Walter, and three infrastructure surcharge proceedings for total annualized revenue request of $212 million. From a regulatory perspective, we are continuing to work diligently to address the impact of the pandemic in our service territories. As of today, we have commissioned orders authorize in deferred accounting for COVID-19 financial impacts in 11 of our 14 jurisdictions, with three proceedings pending in Kentucky, Tennessee and New York.

Essentially, all direct costs and foregone revenues are being captured for future recovery. Currently, the bottom line impact on the regulated business from the pandemic is the estimated variance and demand revenues as we just discussed in the minor impact on homeowner services.

Moving on to Slide 15. As Walter said, we now expect our 2020 earnings to be in the range of $3.87 per share to $3.93 per share, up from $3.79 to $3.89 per share. This guidance range reflects the favorable benefit of weather year-to-date, and assumes normal weather for the remainder of the year. It reflects an estimated $0.06 per share for depreciation not recorded as required by the assets held for sale accounting. And it also reflects an estimated $0.03 to $0.06 per share unfavorable impact from the COVID-19 pandemic. As we've said throughout this call, the full year estimated impact of COVID-19 is highly dependent on the projected impact of a number of unknown factors, which could include the length and severity of any impact on the demand for services and the nature and scope of any regulatory solution.

Finally, moving on to Slide 16. As Walter noted, the company's Board of Directors declared a quarterly dividend a dividend $0.55 per share of common stock in October, this reflects the continuation of the 10% increase in the annual dividend declared by the Board on April 29, 2020. 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, against the target of the high-end of the 7% to 10% range. Also, we continue to target a dividend payout ratio of 50% to 60% of earnings.

As we've discussed all year, our total company consolidated actual return on equity is 10.6%, now for the 12-month period ended September 30, 2020. Regulatory execution along with the strong results from our market based businesses allows us to consistently deliver on our earnings commitment. We continue to believe that delivering on results combined with our strong earnings growth and superior dividend growth expectations provides excellent value for our investors.

The decades of investment need continues and drives our plan $20 billion to $22 billion of capital investment over the next 10 years. With the fragmented water and wastewater landscape and as states and local communities continue to face added challenges from impacts of the COVID-19 pandemic, we believe we can provide those states and town's water and wastewater solutions to help mitigate those impacts. We see our business as resilient and we have built it in a way to endure challenges like we were seeing with the current pandemic.

And with that, let me turn the call back over to Walter for a few additional remarks.

Walter Lynch {BIO 6064780 <GO>}

Yes, thanks Susan. Let me cover two more items before taking any of your questions. First, we plan to talk with you in February as we wrap up 2020 to discuss our 2021 earnings guidance and our long-term plan, including discussion on our ESG goals. In anticipation of that, you can expect that our plan of focusing on growth from infrastructure investment will continue. Additionally, will be meeting with many of you at the Virtual EEI Financial Conference next week, we look forward to talking with you all in.

Second, as you all know, Veterans Day is next week, I'd like to take a moment to thank all the men and women who and women, who served and protected our country. As you may know, I graduated from West Point and was honored to serve as an army officer for more than five years. I'm proud to be a veteran and equally proud that American Water is a culture that reflects the support of our military.

This year we've been recognized by two veterans publications. U.S. Veterans Magazine and Military Times receiving the honor as a Top Veteran-Friendly Company for having a Top Supplier Diversity Program and being among the top 100 Best for Vets Employers. And most recently American Water received the highest recognition given by the U.S. government to employers, 2020 Secretary of Defense Employer Support Freedom Award for exemplary support of National Guard and Reserve employees. We're extremely proud of this recognition and will continue to work with and support those who serve our country.

With that, we're happy to take your questions.

Questions And Answers

Operator

(Question And Answer)

We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Ryan Greenwald with Bank of America. Please go ahead.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Good morning, everyone.

A - Walter P. Mullen {BIO 2534557 <GO>}

Good morning.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Thanks for taking our questions. So maybe if we could start with the military business, can you provide some color around contribution with the new military bases after the latest wins? And then further, do you have any visibility to other opportunities that can materialize in the near term?

A - Walter P. Mullen {BIO 2534557 <GO>}

Well, let me take that and Sus you can jump in, but we don't break out the earnings from military services. We just do it on a segment basis, for a number of reasons, but we just don't do that. But I can also talk to, we're in four different solicitations right now and we expect to hear back on two in the near term. So, just a reminder. We won the last three major awards from the military and we're really proud to be able to support the military and their families.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Got it, but nothing you can provide in terms of color around contribution at this point?

A - Walter P. Mullen {BIO 2534557 <GO>}

No, I'm sorry Ryan. We don't break that out like that.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Fair enough. And then maybe if you could just talk about how you're framing timing at equity, I know you guys kind of alluded in the past that may be in the middle of the plan. But curious of that mindset has changed at all given the strength of shares.

A - Susan Hsiong

Yeah, this is Susan. We have not changed our timing and really the timing that we have laid out in the plan and you're right we had indicated in December when we rolled out this current plan that we had anticipated an issue somewhere in the middle of that five-year period that is still our current thinking and its really tied to, when we need the proceeds, when we need some additional funding for the capital plan that we have laid out as you recall from December we increased our capital expectation for the five-year period and then obviously rolled out our 10 year plan and the equity issue we have in the current plan really supports the timing of when we think the investment occurs and we really need the funding and I just don't see any need to change that at this point.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Got it, and then just lastly, on the New York, American Water sales process. Can you dive a little bit more into that in terms of milestones from here and the process going forward in terms of the timeline?

A - Walter P. Mullen {BIO 2534557 <GO>}

Yeah, as I said in the remarks Ryan, we still expect to close this in the -- in early 2021. And so we're working on an established timeline. We're still confident that we can get there. Even, as the governor has talked about proposed legislation. We don't think that would slow this down.

Q - Ryan Greenwald {BIO 20960461 <GO>}

Got it. Thanks for the time.

A - Walter P. Mullen {BIO 2534557 <GO>}

Okay, thanks Ryan.

Operator

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

Q - Insoo Kim {BIO 19660313 <GO>}

Thank you. First question is for Susan. Remind us in the results and in the guidance, what COVID related costs including the bad debt is included or excluded from the results, getting the various pending regulatory approvals for those?

A - Susan Hsiong

Yeah, our guidance overall, as we indicated we changed guidance this quarter increased it and included in that guidance range as a, an assumption of $0.03 to $0.06 unfavorable for the year and that really, I think reflects in our current trends, we saw a fairly substantial impact through the second quarter and it's recovered some in the third as we saw the commercial business, the commercial sector come back a bit and the residential sector again continues to be pretty strong growth there.

I think challenge of course is to try to estimate how long this thing lasts and what that sort of new surge of cases may impact due to businesses across our service territory. Do they go in to some additional phase of shut down. So again, we tried to capture some assumptions around that in our guidance range of the $0.03 to $0.06 unfavorable just difficult to predict obviously, as we see this thing continue to unfold and it is included in that guidance range that we established.

I mentioned on the regulatory front, we now have deferral orders in 11 of the 14 jurisdictions and that really does cover in exposures to bad debt expense increases, direct costs associated with the pandemic et cetera. So really been impact that falls through if you will is just the demand revenue changes that we might see across the service territory everything else, are the direct costs or direct impacts or captured in those deferral orders.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. And could you quantify just year-to-date what those -- what the deferred cost amount to?

A - Susan Hsiong

It's disclosed in the queue. I think if you go to that footnote in the queue when we talk about COVID specifically we've laid out the reg assets recorded net of some reg liabilities. I don't have the number right in front of me, but it's laid out in the queue for you.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. So question Walter, I know you talked about, increase communications with various municipal utilities for being a potential M&A and I know that's been ongoing every year but just given the COVID environment and your point earlier on potential focus on nationally on water quality and water already in water infrastructure. Are you -- do you think all the core unit your you should see an acceleration of mine acquisitions by a typical over the next two to three years versus the rate that you've seen over the past few years?

A - Walter P. Mullen {BIO 2534557 <GO>}

Yeah, it's a great question. And, we're in many conversations with municipalities around the country. It's one of the reasons is the COVID impact but, there's still a lot of challenges around water and wastewater infrastructure. And we're solutions provider. So, we're going to continue to talk to municipalities of providing solutions.

Our pipeline continues to grow and we continue to talk to new municipalities. So, we'll see where that takes us. Typically it takes two to five years to complete these deals. So there is a delay from the time you see Let me see your start are talking to them to the time you take ownership, but we're very confident in our ability to provide solutions for communities.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thank you so much.

A - Susan Hsiong

Hey, let me just quickly tag onto the question there. We do have a net regulatory asset of $26 million recorded at the end of September related to COVID.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Thank you.

Operator

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

Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you. So what was your in your prepared remarks? You have a comment about some one of the state's admittedly forget which one that has a legislation was to provide for some adjustments for non-municipal systems water systems being acquired. If you could remind me which one it is? And also, in light of that, I'm just looking at your New Jersey Reiki settlement you -- in the original filing you asked for this acquisition adjustment mechanism, I don't see it in the settlement. So I just wonder if it means it's still going to be addressed or the settlement basic, you doesn't cover it IE those three acquisitions and will not be well -- the goodwill is not going to be added to the rate -- basically, New Jersey. Thank you.

A - Walter P. Mullen {BIO 2534557 <GO>}

Yeah, the let me start with the second question first the acquisition adjustment will be dealt with separately and the order there was an executive order that came out that said 90 days after the emergency orders lifted is when they have to render a decision so we don't have an exact time on it yet, but we're expecting that after the executive or after the emergency orders lifted.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay, that's a New Jersey and you mention some which are the state has this, potential adjustments for non municipal systems. I thought you mentioned it.

A - Walter P. Mullen {BIO 2534557 <GO>}

Yeah, no. It's Indiana.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay.

A - Walter P. Mullen {BIO 2534557 <GO>}

Is there's an appraisal process yet for the nominees for utilities and really around establishing fair market value in a reasonable purchase price. So yeah, Indiana has been a leading state in legislation, because they recognize I think the importance of what we can do as a company and addressing the water and wastewater challenges. So we're really proud to be working with the Indiana Legislature and coming up with bills that really affords us the opportunity to do that.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. I think that's all I have. Thank you.

A - Walter P. Mullen {BIO 2534557 <GO>}

Great. Thanks, Angie.

Operator

(Operator Instructions) Our next question comes from Jonathan Rider with Wells Fargo. Please go ahead.

Q - Jonathan Rider {BIO 18622732 <GO>}

Hey, good morning, Walter and Susan. How are y'all doing?

A - Walter P. Mullen {BIO 2534557 <GO>}

Good. How are you?

Q - Jonathan Rider {BIO 18622732 <GO>}

Not bad. So question around guidance midpoint to midpoint your raisin it buys for sense. However, you're citing kind of a net $0.07 to $0.08 benefit, over some options that were originally embedded in your guidance range, it's that kind of implies your core results or action tracking down $0.03 to $0.04 from the original midpoint. What's kind of the driver cause of that.

A - Susan Hsiong

Jonathan let me make sure I follow the question and maybe correct one thing. I think at midpoint where up $0.06. We were roughly 384 midpoint before we're now at 390.

Q - Jonathan Rider {BIO 18622732 <GO>}

Okay. Yeah,

A - Susan Hsiong

And that really just is driven by the weather implications. You know, that's the big driver of the of the change in mid point. I would say I think we obviously did narrow the range a bit as we again have continued to see a little bit more recovery from the COVID cost than we had anticipated when we were discussing this with you at the second quarter we called in our range was $0.05 to $0.08 unfavorable. We're now $0.03 to $0.06 is our current best guess at that. Obviously the business continues to perform fundamentally very-very well. We've not seen any real slow down in our investment opportunities. So the underlying business performing very well.

Q - Jonathan Rider {BIO 18622732 <GO>}

Okay, well, let me ask maybe a little bit of. Historically I guess investors have kind of been conditioned to AWK coming in more in the top half of their guidance range and you guys have done a good job executing. So, if it's the midpoints being raised $0.06. You know despite $0.07, $0.08 of favorable items and it kind of puts you just a little below that original midpoint. So is there anything, that kind of is causing that headwind or expenses not quite as good as you're hoping or rate relief, delays anything like that or --

A - Susan Hsiong

No.

Q - Jonathan Rider {BIO 18622732 <GO>}

Not a lot, just a couple of penny included, just kind of curious --

A - Susan Hsiong

No, really no drivers of that nature. I mean, again, I think we're continuing to understand that the impacts of COVID from a short-term and a long-term perspective, but as I said, the underlying business continues to perform quite well. There's always a number of gives and takes in any particular year, but we've not seen anything that's fundamentally changing our expectations about the ability for the business to perform.

Q - Jonathan Rider {BIO 18622732 <GO>}

Okay. And then Walter, I know you -- you guys are going to roll-out guidance in February. Should we anticipate you roll in the base year in forward one year from, 2018-2019 or is there a chance you guys use 2020?

A - Susan Hsiong

We're still looking at that Jonathan and I think you'll just have to wait till February, when we come out and give you a sort of the full plan. I think is Walter indicated in his remarks though, you can expect to see a continued focus on investment and infrastructure and that's what drives its business and we think we have great opportunity to continue to do that.

Q - Jonathan Rider {BIO 18622732 <GO>}

Okay. And last, I know you said commercial demand and is marked down nearly as much in Q3 as it was in Q2, but how did the trends exactly shaped out on the residential side I think Q2 was up only 5%, which was somewhat puzzling is (inaudible) America, which has some general overlap with your service territories was up 10% where was residential in Q3?

A - Susan Hsiong

I think we quoted that was up and you can check me 13%. I think we said roughly 13% in the quarter and again we'd laid out by quarter in the 10-Q. Yeah. It's a resident of the 13.6%.

A - Walter P. Mullen {BIO 2534557 <GO>}

13.6% Yeah,

Q - Jonathan Rider {BIO 18622732 <GO>}

So that really came back strong or whatever in Q3.

A - Susan Hsiong

It really did and then commercial again. We saw as on a year to date basis is really flat to the prior year. So yeah, obviously you would expect growth right but, we think back last to year-over-year is an indication that across much of our territory which again, we like the geographic diversity of our territory as this thing rolls through the country different parts of the country are responding differently in terms of business reopening and we've seen that occur through the third quarter.

Q - Jonathan Rider {BIO 18622732 <GO>}

Okay, great, and I appreciate the time and talk to you guys soon.

A - Susan Hsiong

Great. Thanks, Jonathan.

A - Walter P. Mullen {BIO 2534557 <GO>}

Yes, thanks, Jonathan

Operator

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

A - Walter P. Mullen {BIO 2534557 <GO>}

Yeah, thank you for joining our call. We value your participation in the work you do on behalf of your clients. We hope our open and transparent discussions give you confidence in our company and the investment of our stock. If you have any additional questions, please call the IR team, they'll be happy to answer any questions you have. So again, thanks again, and be safe everyone.

Operator

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