

Q4 2019 Earnings Call

Company Participants

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

Other Participants

- Durgesh Chopra, Evercore
- Jonathan Garrett Reeder, Analyst, Wells Fargo Securities
- Julien Dumoulin-Smith, Analyst, BofA Merrill Lynch
- Michael Lapides, Analyst, Goldman Sachs

Presentation

Operator

Good morning and welcome to American Water's Fourth Quarter and Year-End 2019 Earnings Conference Call. As a reminder, this call is being recorded and is also being webcast with 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 February 26, 2020. U.S. callers may access the audio archive, toll-free by dialing 1(877) 344-7529. International callers may listen in by dialing 1(412) 317-0088. The access code for replay is 101-385-92. The audio webcast archive will be available for one year on American Water's Investor Relations website at 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, Chuck, and good morning everyone and thank you for joining us for today's call. As usual, at the end of our prepared remarks, we will open the call for any of your questions. Now 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 statements deal with future events, they are subject to

numerous known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from the results indicated or implied by such statements.

Additional information regarding these risks, uncertainties and other factors as well as a more detailed analysis of our financials and other important information is provided in the earnings release and in our December 31, 2019, Form 10-K each as filed with the SEC. Reconciliations for non-GAAP financial information discussed in this conference call including adjusted net income, adjusted earnings per share, adjusted return on equity and 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.

All statements in this call and related to earnings and earnings per share refer to diluted earnings and earnings per share, and with that I will now 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 COO and CEO [ph] elect Walter Lynch will give key updates on our operations and our CFO, Susan Hardwick, will cover the fourth quarter and full-year financial results. As you know, this is my last earnings call, and I am excited to say something I've had the privilege of repeating on every earnings call since May of 2014. Yet again, American Water employees delivered strong results as we continue to grow our business and execute on our strategies.

I've said many times that very few people get the opportunity and privilege of working with their heroes every day and I do. The amazing people of American Water consistently deliver outstanding service and results and they do so with incredibly inspiring commitment and dedication to our customers and to our communities.

Now let me highlight just a few of our 2019 accomplishments. We continued our strong financial performance, adjusted earnings were up 9.4% year-over-year with strong growth in both our regulated and market-based businesses. We added 67,000 customer connections in our regulated business in 2019 through both closed acquisitions and organic growth and just over the past seven weeks in 2020, we have closed an additional 5,100 customer connections. Walter will cover this in detail, but we closed on a total of 21 acquisitions in 8 different states in 2019. We are proud to truly be providing solutions across the United States. We want communities to be better, because we're there and we're excited to welcome our new customers and our new employees to the American Water family.

In addition to these closed acquisitions, we will welcome more than 44,000 new customer connections already under agreement over the next several months. Our growth wouldn't be possible without being customer obsessed and being the best at the fundamentals of delivering safe, reliable and affordable water and wastewater services to our customers.

We invested about \$1.9 billion in 2019 with \$1.7 billion going into our existing regulated infrastructure and 235 million for regulated acquisitions. We work to be as efficient as possible in both our O&M costs and in our capital projects work and by leveraging our buying power and strategic sourcing to keep customer bills affordable.

We continue to implement practical technology tools for our frontline employees to enhance their ability to serve our customers more effectively and we're also working on customer interfaces that deliver a highly personalized and satisfying customer experience. Moving to our market-based businesses, Homeowner Services continued its strong performance, most recently launching a partnership with the San Francisco Public Utilities Commission.

This represents about 100,000 potential new customers for that business and as you know, we were extremely honored in 2019 to be awarded the Department of Defense contracts for water and wastewater systems at both Joint Base San Antonio in Texas and the United States Military Academy at West Point in New York.

We now provide water and wastewater services on 16 military bases across the U.S. and it is a true honor to serve the men and women who serve our country. We also announced in November an agreement to sell our New York American Water subsidiary to Liberty Utilities Company and in December, we completed the sale of our keystone operations.

Moving to Slide 6. With our continued strong performance and our commitment to the disciplined execution of our strategy, we are affirming our 2020 EPS guidance initiated this past December of \$3.79 to \$3.89 per share and our long-term five-year growth of 7% to 10% and for the six year in a row, our Board of Directors approved a dividend increase that is at the high end of our long-term growth. We remain a regulated water utility at our core, with a low risk and predictable growth story further enhanced with a strong ESG performance record.

We plan to invest \$20 to \$22 billion in capital over the next 10 years. This includes replacing pipe, pumps and plans and it also includes investing in critical resiliency and asset hardening projects related to climate variability. Again, this will be balanced by our continuing O&M and capital cost efficiency efforts, constructive regulatory and legislative policy and technology deployment.

The successful execution of our strategies has enabled us to achieve a five year total shareholder return of 156% compared to the S&P 500 five-year TSR of 74%. Strong financial performance is a direct outcome of our steadfast focus on and execution of the fundamentals of our business.

Moving to Slide 7. Let me talk just a moment about how we deliver results. It is our firm belief that companies do well by doing good. Just last month, we were named to the Global 100 Index as one of the worlds 100 most sustainable companies. American Water ranked 16th, fourth among only 17 total U.S. companies of any sector making the list and the only U.S. based utility.

We were also just named for the third year in a row to Barron's 100 most sustainable companies as the highest-ranked utility. We are extremely proud of these recognitions, as they validate from external sources, our deep commitment to be an ESG later on. This slide lists several of our most recent 2019 and 2020 ESG recognitions. We know that investors are actively searching for companies who deliver strong financial results while they also fully engage and develop employees, continually improve customer experiences, protect the planet and make community stronger because they are there. When these things are in the fabric of your culture and you

also excel at the fundamentals of your business, long-term financial sustainability follows, and this is why we are confident in our business and our growth for the future.

With that, I will turn the call over to Walter to give a more detailed update on our regulated business. Thanks Susan. Good morning everyone.

Walter J. Lynch {BIO 6064780 <GO>}

Our regulated businesses had a strong fourth quarter with significant capital investment, strategic acquisitions, and continued O&M efficiency. Turning to Slide 9. There was a substantial amount of progress on the regulatory front throughout 2019 and continuing into 2020. In 2019, we concluded four rate cases in Indiana, Kentucky, West Virginia, and Maryland. In total, these 4 cases included more than \$860 million of capital investment to provide reliable service for our customers. They also reflect a concerted effort in cost management, which I'll speak to you shortly.

We have three pending rate cases in New Jersey, Virginia and California. In December 2019, New Jersey American Water filed a general rate case requesting an overall revenue increase of approximately \$88 million, excluding the revenue from the distribution system improvement charge or DC. Since our last rate case in 2018, we have or will invest more than \$1 billion in system upgrades, including 95 miles of water mains, which is critical to water quality, reliability and fire protection. That level of investment also addresses New Jersey American Water's compliance with the state's Water Quality Accountability Act.

In November 2018, Virginia American Water filed a general rate case requesting an overall revenue increase of \$5.6 million, driven by approximately \$98 million in infrastructure upgrades since April 2017. Interim rates became effective on May 1, 2019, and we expect the decision later this year.

Moving west, California American Water filed for new rates in July 2019. 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 1, 2021. The request seeks \$197 million for infrastructure improvements planned for 2021 and 2022.

We expect the decision on this case late this year with new rates to take effect on January 1, 2021. California American Water also joined a multi-company request on January 22, 2020, that requested a one-year delay in filing a new cost of capital application in an extension of the currently authorized cost of capital.

Turning to Slide 10. We continue to balance, making critical investments to provide reliable service while limiting the impact to our customers' bills. For 2019, we've invested a total of \$1.9 billion in our regulated operations. At the same time, we continue making progress towards our long-term O&M efficiency goal of 31.3% by 2024. To put this effort in perspective, our adjusted O&M expenses are just slightly higher today than they were in 2010. Since then, we've added approximately 270,000 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. Turning to Slide 11. As Susan said, we continue to grow the size of our footprint with 21 acquisitions occurring in eight states, adding about 53,100 new customer connections. In 2020, year to date, we've added approximately 5100 new customer connections through two closed acquisitions with the majority coming from the Fruitridge Vista Water System in California. In 2019, we were successful in continuing to expand our wastewater footprint, in areas where we serve water customers. It just makes great sense to use our existing resources in areas where we already provide water services.

This was the case last year in Alton, Illinois, where we welcome 23,000 wastewater customer connections and in Exeter, Pennsylvania, where we welcome 9000 wastewater customer connections. We also added 14,000 new customer connections from organic growth in 2019 and we'll welcome another 44,200 customer connections through 28 signed agreements in nine states, seven were signed since we last spoke in Investor Day in early December. These agreements will add about 15,000 water customer connections and about 29,000 wastewater customer connections.

Moving to Slide 12. We continue to achieve our 1% to 2% growth at customer connections through acquisitions, which equates to about 30,000 to 60,000 new customer connections per year.

As you can see, since 2015, we've completed 83 acquisitions, adding about 173,000 new customer connections in 10 states. Of those 83 acquisitions, 50 were acquisitions of water systems, adding 43,000 customers and 33 were acquisitions of wastewater systems, adding 130,000 customers. Our customer base is now 93% water and 7% wastewater, which provides us tremendous opportunities to grow our wastewater business in areas where we already provide water service.

We're very disciplined in our approach to acquisitions, leveraging our tremendous expertise to find solutions for communities. We now have about 695,000 customer opportunities in our pipeline, up from about 650,000 customer opportunities in our last update at Investor Day. This consistent growth in our pipeline is bolstered by key regulatory mechanisms and legislative enablers.

We work constructively with regulators and legislators in the states where we operate to receive these key mechanisms and enablers. We now have fair market value in eight of our states, consolidated tariffs in 12 of our states and Water Quality Accountability legislation in two of our states, with other states within our footprint, considering similar legislation.

We're a purpose-driven company and every one of our employees plays a role in supporting our disciplined growth strategy. For us, it's about providing meaningful water and wastewater solutions to communities and welcoming these new employees into our company culture of purpose and safety.

With that, I'll turn the call over to Susan Hardwick 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 our results. Fourth quarter 2019 consolidated GAAP earnings were \$0.54 per share, compared to \$0.62 per share in 2018. In the fourth quarter of 2019, GAAP earnings were adjusted for the December sale of our Keystone operations and 2018 GAAP earnings were adjusted for the re-measurement of deferred taxes resulting from the Tax Cuts and Jobs Act.

Excluding these adjustments, adjusted earnings per share were up \$0.04 per share, driven primarily by growth in the regulated business. The regulated business segment results were up \$0.13 per share or an increase of 18.3% compared to 2018 earnings. The Market Based Businesses results were up \$0.03 per share and the parent company decreased \$0.12 per share compared to 2018, primarily reflecting higher interest expense to support growth in the business, and for the year, our 2019 adjusted earnings were \$3.61 per share or 9.4% increase over the same period last year.

Our regulated businesses increased \$0.28 per share, our market-based businesses increased \$0.12 per share, primarily from Homeowner Services and finally the parent results decreased by \$0.09 per share year-over-year, driven by higher interest expense, which was partially offset by the sale of the legacy investment that occurred in the second quarter of 2019.

Moving on to Slide 15. Let me walk through a bit more detail of the 2019 results by business. As I mentioned, regulated operations were up \$0.28 per share in total. We had a \$0.49 per share increase from additional authorized revenue and surcharges to support infrastructure investments, acquisitions and organic growth.

Offsetting the revenue increase, the second quarter of 2019, which was the wettest on record, had a \$0.04 per share, unfavorable impact from weather. Also O&M expense increased \$0.03 per share and depreciation and interest increased \$0.14 per share, both to support regulated acquisitions and other growth.

The Market Based businesses reported strong results in 2019 compared to 2018, primarily driven by organic growth of the Homeowner Services Group and from the addition of the two contracts in our Military Services Group in 2018. Finally, the parent was down \$0.09 per share, primarily reflecting higher interest expense to support growth in the business and a \$1.5 million or about a \$0.01 per share donation to the American Water charitable foundation.

Moving to Slide 16. We have been very active on the regulatory front. The Regulated Businesses received \$98 million in annualized new revenues in 2019, and this includes 45 million from rate cases and \$53 million from infrastructure surcharges. We have also filed requests and are awaiting final orders on three rate cases and one infrastructure surcharge proceedings for a total annualized revenue request of \$126 million.

The continued successful execution of our regulatory strategy is a key element of our ability to consistently deliver results.

Moving to Slide 17. As Susan said, we are affirming our 2020 EPS guidance range of \$3.79 to \$3.89 per share that we initiated in December. We are also affirming our long-term earnings

compounded annual growth rate expectation on an earnings per share basis of 7% to 10%, while investing capital in the range of \$8.8 billion to \$9.4 billion over the next five years.

Moving to Slide 18, let me summarize. We've invested capital of \$1.9 billion in 2019, including \$1.7 billion of regulated system improvements to better serve our customers and \$235 million enclosed-regulated acquisitions that added over 53,000 new customer connections. These investments increased our estimated rate base at the end of 2019 to \$13.7 billion, a 10.1% increase from the prior year. Our cash flow from operations held steady on a year-over-year basis from strong net income growth and the cash flow from our market-based businesses.

We continue to deliver strong consolidated results. Our total company consolidated actual return on equity was 10.6% for 2019. 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 expectations continues to provide excellent value for our investors and we continue to be a top leader in dividend growth. We have grown our dividend at a compound annual growth rate of approximately 10% or more over the last five years and we expect to continue this growth at the high end of the 7% to 10% range.

Also, we continue to target a dividend payout ratio of 50% to 60% of earnings. And with that, let me turn it back to Walter for a few additional comments.

Walter J. Lynch {BIO 6064780 <GO>}

Thanks, Susan. As you all know, this is Susan Story's last earnings call with American Water and I wanted to take this opportunity to reflect on her tenure with us. For me, it's been an absolute honor to work with Susan over the past 6 years as CEO and a year before that as CFO. She cares deeply about our people, our customers and our communities. Her commitment to do well by doing good has led to so many of our successes. There are too many accomplishments to name, but I will note that our commitment to the health and safety of our employees has been extraordinary.

Susan always lives up to the company's strong values, especially safety, nothing has mattered more. She cares about every single employee in our company and constantly reminds us that every employee should go home to their families in the same or better shape in which they came to work. We've had a 63% reduction in overall OSHA recordable injury rates and 72% reduction in the serious injury rates since she became CEO. Our goal is to have zero injuries and we're working to make that a reality. During Susan's tenure, American Water became the first and continues to be the only water utility in the S&P 500, the Dow Jones Utility Average and the Philadelphia Utilities Index. Additionally, our 6-year total shareholder return is 230.8%. Market capitalization increased from \$8.6 billion in May 2014 to over \$25 billion currently and our dividend growth compound annual growth rate over the past 6 years is 10.2%. Susan has been instrumental in guiding us in our current journey as a people power culture and a customer obsessed organization with a strong commitment to environmental leadership, water quality, operational excellence and growth.

Our entire leadership team is deeply committed to the execution of our strategies and our company values. So, Susan, on behalf of all our employees at American Water, thank you so much.

Susan N. Story {BIO 3335156 <GO>}

Thank you Walter, and I want to thank all of you on this call; investors, analysts and other stakeholders, who have been part of this remarkable journey I've had with this amazing company. I've enjoyed all the moments we've spent together, whether on non-deal roadshows, our individual visit, earnings calls, Investor Days, you name it. I appreciate the rigor and discipline that you require of us to ensure the best financial future for your clients. I hope you know that now and tomorrow, this company and its leaders take very seriously our responsibility to stewardship of the trust you put into us, so that you can, as one of our investors described to me, make us your "SWAN stock" or your sleep well at night stock.

I know that you realize that this company and our continuing results are a product of almost 7,000 incredible employees led by the best executive team in the country. All that we have done is reflective of thousands of hours of honest discussion, vigorous debate, long and short-term strategizing and action planning from all of us. Walter has been a critical key leader for this company for almost two decades and his experience and steady hand will successfully guide this company into the coming years, and I'm also thankful I've had the opportunity to work with two of the best CFOs in the entire utility industry, first Linda Sullivan and now Susan Hardwick and to top it off, you have Institutional Investor magazine sell-side analysts choice for the best, IR VP in Utilities, Ed Vallejo, and his entire team providing continuing expertise to ensure that you and your clients get the information you need to make your best decision, which we think is us, of course. So thanks to all of you for everything, and with that, we're happy to take your questions.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) Our first question will come from Julien Dumoulin-Smith of Bank of America. Please go ahead.

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

Hey, good morning team. Let me just pile on here. Congratulations truly. It's been a pleasure and more importantly, I wish you all the best in the adventures that come.

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

Thank you Julian.

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

Absolutely, and perhaps just to turn it back to our regularly tuned program here. I appreciate the commentary. If we can talk about PFAS in brief and I want to break this into a couple of

different pieces. First, with respect to military sites, I know you guys have been obviously very involved for a while. This PFAS start to change the opportunity set for your existing sites and secondly, does it change the opportunity set for incremental sites and/or accelerate those opportunities in terms of bases that may or may not be looking at opportunities including yourself.

And then separately, coming back to PFAS more holistically, I know EPA is looking at setting perhaps updated targets and to what extent could either a state and more importantly federal level efforts and I know a lot of the specific states you guys operate in already, have been looking at or have already instituted more specific and stringent targets, does that change the name of the game, and I know we talked about this a few months ago at your Analyst Day, but again, even in that short period of time, it seems like the conversation has evolved.

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

Julien, that's a great question and I will start and then Walter can pick up after this. So you're right. Let me take the first one about the military bases, because as we know that a majority of the source of PFAS our firefighting foam and many military installations through the years of course doing exercises and those type of things, tend to have a concentration, the Department of Defense is actively working at its bases to determine if and whether they have issues. We have, as you noted, already done work on two of our military bases. We have been working on PFAS for well over a decade, we are able to treat it successfully. We've done so at Picatinny Arsenal in New Jersey, for example, so we're working with the bases that we serve in order to help look at what do they have and then we feel certain that we're able to treat those, and remember that with military bases that we can with the newer bases actually every year, instead of every two years, go in, look at the assets, look at something above and beyond what we bid on to begin with and we have the ability to change those O&M contracts to recover those costs. So from that standpoint, we'll be working on that over the next several months to work with those bases to do that.

The second thing about the EPA and updated target, so keep in mind that EPA has two classifications, one's called maximum contaminant level and there is close to 100 contaminants that they basically say, this is a regulation you must meet these. Then, they have something called a health advisory, that actually doesn't have the weight of required adherence to that. Believe it or not, PFAS is actually not an MCL or maximum contaminant level, it's a health advisory and right now, they're looking at 70 parts per trillion, that's what they have. What they're looking at doing is quantifying that, making it an MCL, so that they do have the weight of required compliance behind it.

There is a lot of questions as you said about levels and we're seeing the different states: New Jersey, for example, has 13 or 14 parts per trillion based on the type of PFA it is; we're seeing New York look at it; California is looking at it; several states are; we at American Water are working closely with the EPA very closely, we think it's better to have one for the entire country, we can treat to whatever level is needed, it is an expense issue as we go through there, plus some capital investment and how we treat that.

So it is a growing field, it is a field in which we believe we have tremendous expertise, we are an advisor to the EPA on this issue and we will be as we go down this road and we look at what the

finalization of these targets are, we can look at what impact that would have to our investment levels as well as what would have to O&M.

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

And just to add a little bit to that Susan, we treat in each of our states to the health advisory level of 70 parts per trillion, unless the state has a more stringent requirement and then we treat to that, so it's just California and New Jersey and New York. So that's how we address it, but as Susan said, we are working with the EPA to make sure that we put our views in there about what we think the MCL should be and it's going to take, I think, some time for the EPA to go through the testing protocols to determine the MCL, but we're going to continue again to treat at 70 parts per trillion or less if the state as a more stringent requirement.

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

Got it. And just a quick follow-up, does that change the municipal acquisition opportunity as best you see it with that triggering, sort of the follow-up, I know it's a lot of question.

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

Yeah, I think that's going to be just part of the pie as far as opportunities for us to provide solutions for communities. If they have issues with PFAS, I mean they are looking at the cost to treat that or other options and may be shutting down the facility and tying in ours, I think it does provide opportunities for us. Yes.

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

I'll leave it there. Thank you again and again, Best of luck.

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

Thank you, Julien.

Operator

Our next question will come 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>}

Hi Durgesh.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Susan, I will miss you a lot and it's been an absolute pleasure. Congrats again.

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

Thank you.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Just going back, can I follow up on Julien's questions on the PFAS. Can you just remind us what level of capex do we have in the current, I guess your 5-year outlook or 10-year outlook as it relates to PFAS.

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

It's considered to be part of the kind of normal capex we do. When you look at the chart, for example, and you look at Water Quality, it falls into that the piece of the pie for water quality, so as we go forward and we look at the magnitude of what the requirements could be, it could either take a bigger piece of the pie, or we could move to make the pie bigger just depends on the magnitude.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay, thanks. And then just can I go back, real quickly, maybe this is for Susan Hardwick. The (inaudible), other number for \$0.13 to \$0.12 increase quarter-over-quarter, it seems very large, is that all interest expense driven or are there other items in there?

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

It's primarily interest and just to recall that during the year we issued about \$1 billion worth of long-term debt. That's the primary driver.

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

And when you see the employee-related expense, actually this is something that we are very positive about, if you remember we reached an agreement with our unions last year and we include all of our union represented employees, which is about 47%-48% of our employees into our annual performance plan with bonuses based on the performance of the company, 2019 was the first year, the first full year that we actually had that accrual for all of the union represented employees, so the majority of those employee-related costs are based on that. So that's why year-over-year it looks higher because that's an additional call.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay, perfect. And then just real quick one. In the New York American sale, that's still scheduled to sort of close second half of this year.

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

Hey Durgesh, Walter. Yeah, we're progressing as expected on that and we said we'll probably close at the end of this year or the beginning of 2021, but it is progressing as expected.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay. Thanks again.

Operator

Our next question will come from Michael Lapides of Goldman Sachs. Please go ahead.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey, guys. Once again, Susan. I don't mean to sound like or repeat myself from comments made at the Analyst Day, but congratulations you've done an excellent job in running this company over the years.

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

Thank you Michael.

Q - Michael Lapides {BIO 6317499 <GO>}

I do have one question, where do you think, across your system, you have the greatest challenges to earn authorized ROEs and what are the steps over the next two to three years, Walter do you plan to do either from a regulatory construct or cost management effort or something else to improve the earned returns in those jurisdictions.

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

Hey, Michael, Walter. We're happy in each of the states where we're operating and as far as being treated fairly, I think we're being treated fairly in the states where we operate, so not going to really comment on the authorized ROEs or the earned ROEs in any of the states, but we're very happy where we're operating. I think going forward, it's part of our culture to look at every dollar in our business and that's I think what sets us apart. If you look at the O&M efficiency, improvements that we've had, every dollar that we spend our teams are out challenging do we need to spend that dollar, is there a benefit to our customers and so it's that culture I think is driving our O&M efficiency in the right way. I think we're going to continue to leverage technology and technology has been a key enabler for us and will continue to be a key enabler going forward, making our employees more efficient, providing better service for our customers, so we're going to continue to leverage that as we move forward as well.

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

You know, one thing that was interesting. I was reading our supply chain report from year-end 2019 and they track something called total cost of ownership that looks at from negotiations, has been able to use volume procurement, they call it a total cost of ownership, we actually last year almost saved \$80 million just in supply chain, from that area called total cost of ownership

and I think that is a good representative of what Walter is talking about, in addition to our folks in the technology, just leveraging our size, scope and scale and being smart on supply chain.

Q - Michael Lapidès {BIO 6317499 <GO>}

Got it. Thank you, guys. Much appreciated.

Operator

Our next question will come from Jonathan Reeder of Wells Fargo. Please go ahead.

Q - Jonathan Garrett Reeder {BIO 18909775 <GO>}

Hey, good morning. Susan and team, just want to echo everyone else's remarks congrats, definitely going to miss you and hopefully the Tigers treat you well in your retirement.

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

Well, I'll send you my personal email, so we have to do college football season between Notre Dame and Auburn.

Q - Jonathan Garrett Reeder {BIO 18909775 <GO>}

Definitely, you might come out on top on most of that. Two questions from me. First of all, Walter, maybe this one is for you, tell us when it comes to capital update, as the public advocates office weighed officially with the CPUC in regard to your request or have you had any (Technical Difficulty) application here in the next few months.

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

Actually having a hard time hearing you. I think it was on the cost of capital and we're going to be filing, the proposed plan is to file in May of 2021 for 2022, so we're going to be at the current cost of capital this year and next year. What was another part of the question?

Q - Jonathan Garrett Reeder {BIO 18909775 <GO>}

So are you saying, did you get the one-year extension then, was it accepted?

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

No, we just filed for it, but the expectation would be that the cost of capital would be in place for this year and next year, if we get it approved.

Q - Jonathan Garrett Reeder {BIO 18909775 <GO>}

Right, I was wondering if the public advocates office, have they weighed in on your request or have you been having active settlement discussions with them to try to get them on board of

the request and how should we think about the timing of the CPUC decision in that request.

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

Yeah, there has not been any official decision on it, so it's just our filing in the hopes that we can delay it for a year.

Q - Jonathan Garrett Reeder {BIO 18909775 <GO>}

Okay, but the consumer advocate, have they weighed in at all or are you actively trying to get them on board with that request, like what's kind of going on behind the scenes?

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

Yeah, that's part of the filing is working with them and putting our views out there, but they have not officially made a decision on.

Q - Jonathan Garrett Reeder {BIO 18909775 <GO>}

Okay. And then the other question, I know you had the \$0.03 legacy investment sale, but just to be clear 2019s \$3.61, that reflects a \$0.04 headwind from below normal weather for the full year. That's correct. Right.

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

Yeah, Jonathan. That's correct.

Q - Jonathan Garrett Reeder {BIO 18909775 <GO>}

Okay, great. Thanks so much and again, Susan enjoy the off time and definitely look forward to staying in touch.

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

Thank you, Jonathan.

Operator

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

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

Thank you, Chuck. And thanks again to all of you 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 our company and investments in our stock. If we've not been able to address your question or if you have additional questions, you know you can always call Ed and Ralph and they'll be happy to help. Thanks again for listening and thank you so much for the past seven years.

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