

Q2 2024 Earnings Call

Company Participants

- Aaron Musgrave, Vice President, Investor Relations
- Cheryl D. Norton, Executive Vice President and Chief Operating Officer
- John C. Griffith, Executive Vice President and Chief Financial Officer
- M. Susan Hardwick, President and Chief Executive Officer

Other Participants

- Aditya Gandhi, Wolfe Research
- Angie Storozyński, Seaport Global Securities
- Durgesh Chopra, Evercore ISI
- Jonathan Reeder, Wells Fargo Securities
- Paul Zimbardo, Jefferies
- Richard Sunderland, J.P. Morgan Chase & Co.

Presentation

Operator

Good morning and welcome to American Water's Second Quarter 2024 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. The audio webcast archive will be available for one year on American Water's Investor Relations website.

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

Aaron Musgrave {BIO 22474483 <GO>}

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

Let me first go over some safe harbor language. Today, we will be making forward-looking statements that represent our expectations regarding our future performance or other future events. These statements are predictions based on our current expectations, estimates, and assumptions. However, since these statements deal with future events, they are subject to numerous known and unknown risks, uncertainties, and other factors that may cause actual results to be materially different from the results indicated or implied by such statements.

Additional information regarding these risks, uncertainties, and factors, as well as a more detailed analysis of our financials and other important information is provided in the second quarter earnings release and in our June 30 Form 10-Q, each filed yesterday with the SEC. And finally, all statements during this presentation related to earnings and earnings per share refer to diluted earnings and diluted earnings per share. After our prepared remarks, we'll then close by answering your questions.

With that, I'll turn the call over to American Water's CEO, Susan Hardwick.

M. Susan Hardwick {BIO 16618718 <GO>}

Thanks, Aaron. Good morning, everyone.

Let's turn to Slide 5 and I'll start by covering some highlights of the first-half of the year. As we announced yesterday, we delivered solid financial results in the second quarter and first-half of 2024. Earnings were \$1.42 per share for the quarter compared to \$1.44 for the same period last year. In the first six months of 2024 and 2023, earnings were \$2.37 per share. The results for both periods were in-line with our expectations. Our expectations were based on the timing of revenue increases from several general rate case proceedings and infrastructure mechanism filings expected to be effective in the latter half of 2024, which I'll speak more about shortly.

With our year-to-date execution and customer usage declines being a bit less than we had planned for so far in 2024, we have raised our 2024 EPS guidance by narrowing it to the top-half of the guidance range. Our expectations for 2024 are now \$5.25 per share to \$5.30 per share. John will share more about our results and guidance a bit later.

Moving on to some of our other key accomplishments so far in 2024. We invested \$1.4 billion in capital projects year-to-date, again, reflecting great work by our teams responsible for planning and completing these investments. We were also very pleased to add 43,000 customers in our first-half of the year from acquisitions and organic growth. Our outlook for future acquisitions remains very strong as we have nearly \$500 million in acquisitions under agreement.

And earlier this week, we were pleased to publish our company's latest Sustainability Report for 2023. It reflects how we are fulfilling our mission of providing safe, clean, reliable and affordable water and wastewater service in a very sustainable manner to American Water customers. This has been our mission for over 135 years and counting.

Turning to Slide 6 and back to the topic of regulatory recovery, I want to acknowledge the great work of our state and corporate regulatory teams as they continue to successfully execute on our regulatory strategy. We have completed four cases already in 2024 in Indiana, West Virginia, Kentucky and Pennsylvania, all of which authorized 100% of the capital investments we have made or will make in each state. We also have several other general rate cases and timely infrastructure recovery mechanisms currently in front of regulators that I'm confident will be reasonably decided. Cheryl will provide some additional updates on our active general rate cases a little later.

Let's zoom out for a minute, though. I want to remind investors that we strategically choose to operate in a diverse set of regulatory environments that we believe have been and will remain supportive of water and wastewater utility investments and consolidation.

As I told you earlier this year, American Water continues to receive tremendous support at the state and federal level for the work that we do across our footprint. Policymakers in our states often understand that historic \$20 or \$30 per month water bills don't equate to adequately invested systems or the highest quality services for residents. Those relatively low legacy rates often signal significant underinvestment, below average reliability and/or water quality, wastewater overflow issues or all of the above. That's why policymakers frequently encourage American Water to keep growing, keep investing and keep solving problems in their states.

We often are called on by regulators and policymakers when there is a need for experts to take over a failing community water system. We have a very recent example of just that in the state of Pennsylvania. As you know, we just completed our rate case in Pennsylvania and the Commission released its order in that case on July 22. It was a case that reflected \$1 billion of investment since our last case, which was decided just a short 18 months ago. It's important to note that the Commission approved 100% of the capital invested or to be invested by the end of the future test year of June 30, 2025. There is no dispute about the investments being made and the absolute need for the investment to continue to update our systems to ensure that citizens of Pennsylvania, where we operate, are confident in their water and wastewater service.

Certainly, we've received comments about the pace of our regulatory strategy in Pennsylvania. What drives that pace is the need, plain and simple. And of course, that pace of investment leads to increased customer bills. We're focused on that issue in every aspect of our regulatory planning and the efforts we continue to drive to ensure customer affordability, from cost management and driving efficiencies to innovative tariff approaches to a direct customer assistance. At the end of the day, though, the need for investment is not decreasing.

As you assess the recent Pennsylvania order outcome, it's helpful to understand the reconciliation of the order findings to our request. Really, there are only two or three things that reconcile the full difference. Recall that we requested a revenue increase of about \$200 million and an ROE of 10.95%, an ROE request, which is fully reflective of an increasingly risky business because of higher capital costs, new and emerging regulations, and an increasing need for resiliency, to name just a few of the drivers. The ROE differential between our request and the Commission's unprecedented and frankly unsupported finding of 9.45% is \$71 million of revenue.

Additionally, the Butler Area Sewer Authority acquisition, though fully approved by the Commission previously, was removed from the revenue requirement because the transaction is not yet closed. That impact is \$23 million of requested revenue. The remaining \$11 million delta from our request to the final authorized revenue requirement is made up of a few cost to service items. In summary, the order found our request to be fully reasonable, but for the ROE finding.

We will continue to be very present in Pennsylvania as we serve our customers, but we will evaluate what this result means to our overall allocation of capital investment among our

various states. Investors certainly expect a fair return, and it is part of our mission to provide that opportunity while fully serving our customers.

Collectively, we believe there is a very long runway of investment opportunities in the communities we serve across our 14 states for organic CapEx and for growth through acquisitions. And further, we believe the regulatory and legislative environments in our 14 states continue to be conducive to earning a fair and reasonable return on the investments we are making and that you, our investors, are counting on. We do all of this while keeping customer bills affordable and staying true to our high value of quality service and sustainable operations.

Which leads us to Slide 7 and what I believe are the drivers of American Water's very competitive and sustainable shareholder return built on the foundation of the regulatory execution I just discussed. This quarter, we are again affirming our long-term targets, including both earnings and dividend growth targets at an industry-leading pace of 7% to 9% over the next five years and beyond. This affirmation is based on our clear top-tier growth, capital growth plan and our solid regulatory and operational execution.

Our track record of execution on these fronts gives us confidence and should give investors confidence in our ability to achieve our short-term and our long-term financial targets.

Finally, let me spend just a few minutes on the leadership news we detailed in our earnings release. I'm excited to relay John has been named President of American Water. This is a decision the American Water Board and I have worked on for some time and it really is about our intentional effort to build a pipeline of talent through career development to ensure we have a strong leadership foundation for the long-term. With this shift, I will continue to lead the overall strategic direction of our company as the CEO and as an American Water Board member. John will lead the continued execution of our strategies and daily operations. He will continue to report to me, and our executive leadership team will report to John.

Cheryl will expand her COO role and now lead business development. When you consider how she has led our increased capital program, her extensive water quality expertise given the ever-increasing regulations, and her reputation in this industry, this is a natural expansion of her role as we continue to bring solutions to even more communities across the country.

David Bowler, who you will hear from next quarter, has been named Executive Vice President and CFO, and Nick Furia has been named Vice President and Treasurer.

Let me just say a few words about John, Cheryl, David and Nick, as we are really pleased to have all four expand their roles. You know John well. He has more than 25 years of industry knowledge and expertise and significant experience in leading high-performance teams, strategy development, and execution. Most importantly, he has a deep understanding of our company's purpose and a strong commitment to our customers, employees and shareholders.

Cheryl has more than 35 years of experience and expertise. She has led our lab, served as President in three of our states, and does an incredible job leading all areas of our operations. She, too, has a strong sense of the purpose of American Water.

David has nearly 20 years of deep experience in the utility industry and has been our Deputy CFO and Treasurer since 2022. He has significant experience in all aspects of financial management and strategy, including finance strategy and planning, treasury, accounting, enterprise risk, and capital markets.

And Nick Furia has 10 years of experience with American Water and has served as our Assistant Treasurer since 2021, overseeing key treasury-related functions, including financing, cash flow, liquidity, overall cap structure management. He also served as the Director of Acquisitions at American Water and has nearly 20 years of experience in accounting and finance roles.

All have a strong commitment to the success of our company and are well-suited for their new and expanded roles. We firmly believe we have further solidified an already top-talent leadership team. Our leadership team and the American Water Board of Directors are excited about these changes and highly confident this team will support the execution of our plans now and well into the future.

And with that, I'll turn it over to Cheryl to talk more about our recent regulatory updates, affordability, and the capital plan. Cheryl?

Cheryl D. Norton {BIO 17107572 <GO>}

Thanks, Susan, and good morning, everyone.

Let me start by saying how excited I am about today's leadership news and I look forward to working even more closely with our business development team to provide water and wastewater solutions to many more new communities. I'm also very confident that we have the right team for the long-term success of this company.

On Slide 9, I'll cover the latest regulatory activity in our states. In Pennsylvania, as Susan just laid out, the Commission issued an order in July authorizing an additional \$99 million in annualized revenues effective August 7.

There are two other items from the order worth noting. The PUC encouraged Pennsylvania American Water to set a target donation to its hardship fund of an additional \$1 million. Of note, as part of its acquisition of the Butler Area Sewer Authority, Pennsylvania American Water already committed to increase its shareholder contribution to the H2O Help to Others grant program by \$3.5 million over five years.

As you know, the BASA acquisition was approved by the PUC in November of 2023, but it was appealed to the Commonwealth Court. So the PUC approved expansion of these assistance programs awaits a decision from that court.

Regarding the water quality issues raised in the order, we acknowledge that some customers in the Northeast part of our Pennsylvania service area experienced temporary aesthetic disturbances associated with system improvements and operational maintenance. Let me be clear. Our water meets all state and federal drinking water regulations. We take customer comments about water quality very seriously and will work with the Commission on the matters

raised. As part of this commitment, we attempted personal outreach to every customer who raised a water quality concern during the public hearings to better understand and resolve their issues.

With 33 Pennsylvania American Water's water treatment plants nationally recognized with the Directors Awards for participating in the EPA's Partnership for Safe Water, we are fully committed to high-quality, reliable and affordable water and wastewater services.

Switching over to Kentucky, the Commission there issued an order on May 3 authorizing an additional \$11 million in annualized revenues. Since the company had implemented interim rates effective February 6 based on the requested revenue of \$26 million, the order requires a refund with interest to customers retroactive to this date. It does not include the infrastructure surcharge revenues of \$10 million, which add to our investment recovery in the state.

We filed with the Commission a petition for a rehearing of the rate case order seeking clarification or correction of certain quantifications with respect to the authorized amount of annualized revenues. Of the handful of issues we have raised, the one of most significance appears to be a mathematical error that once corrected would result in a higher revenue requirement. We expect resolution of this proceeding later in 2024.

Turning to active cases, you can see we have general rate cases in progress in seven jurisdictions. All of these cases are centered around the capital investments we have made and will continue to make in these states, and all of them are proceeding as we expected.

On July 1, we filed a general rate case in Missouri, reflecting a \$1.5 billion in system investments covering January 2023 through May 2026. We are seeking \$148 million of additional annual revenue. Rate cases in Missouri usually take up to 11 months, and we expect new rates to become effective mid-2025.

In Illinois, the next milestones in the case will be evidentiary hearings in August, followed by briefing from all parties in September, and then a proposed order due in October.

In California, we still expect a final rate case decision in the second half of 2024. New rates will be implemented retroactively to January 1, 2024. As a reminder, we reached a partial settlement agreement in November of 2023 with the CPUC's Public Advocates Office, which would address our revenue requirement request, but does not address rate design or certain other matters, including our request for continuation of a revenue stability mechanism.

Also of note, the California Supreme Court issued a unanimous opinion, concluding that the Commission erred when it prohibited water utilities from proposing to continue their water revenue adjustment mechanisms. Accordingly, the Court vacated the portion of the Commission's 2020 decision relating to this prohibition. Decoupling is a critical tool for conservation efforts in California. Adequate water supply reliability for all uses is essential to the future economic and environmental health of the communities we serve there.

In New Jersey, as outlined in the procedural schedule, the company is in confidential settlement discussions among the parties to the proceeding, and we hope to have a resolution soon.

To show the magnitude of our regulatory execution efforts, you can see on Slide 10 that we have \$266 million in annualized new revenues and rates so far in 2024. This includes \$176 million from general rate cases and step increases and \$90 million from infrastructure surcharges. In total, we have \$546 million of total annualized revenue requests pending. Most of the annual authorized revenues we are expecting in 2024 have effective dates which will have a stronger impact on financial results in the second half of the year.

Moving to Slide 11 and a topic you've heard us cover just about every quarter, customer affordability. And as we've said, we are very focused on balancing customer affordability and the magnitude of the system investments that are needed.

An example of this is included in the Missouri general rate case we filed on July 1. We are proposing a new income-based discounted rate for customers below 150% of the federal poverty level. We also currently offer assistance through our H2O Help to Others program, which is available to any Missouri American Water customer and meets the basic needs criteria as set by the Community Action Agencies' caseworkers. We also continue to strongly advocate for a permanent, federally funded, low-income water assistance program similar to what's been in place for many years for gas and electric utility customers and what was temporarily in place for water customers during COVID.

Turning to Slide 12. As Susan reviewed earlier, highlighted here is an example of the constructive, regulatory and legislative environments we operate in. Our theme here is not only around timely, consistent recovery of investments and operating costs, but also around offering affordability programs and tariffs to those customers who need it the most.

As I alluded to earlier, American Water has consistently engaged with policymakers and regulators over the years to find the best ways to invest in water and wastewater infrastructure to serve the long-term best interests of our customers while also achieving timely recovery. When we achieve timely and consistent recovery, it promotes affordability by leveling out customer bill impacts over time, making those bills more manageable for our customers.

I'd like to point out that we offer affordability programs in most of our states, which is something we have been doing for some time now. We also have specific low-income tariffs enacted in four of our biggest states, Pennsylvania, New Jersey, Illinois, and West Virginia. And as I mentioned on the last slide, we are seeking to add Missouri to this list once our general rate case concludes next year.

Lastly, Slide 13 shows that our state and corporate leaders and their teams again did a great job in the quarter executing on our increased capital plan. They safely completed the hundreds of projects that improved our systems and drove capital investment higher by almost \$200 million in the first-half of 2024, compared to the same period last year. This result keeps us on pace to hit our goal of approximately \$3.1 billion of capital investment in 2024.

With that, I'll hand it over to John to cover our financial results and plans in further detail. John?

John C. Griffith {BIO 22806522 <GO>}

Thank you, Cheryl, and good morning, everyone. I, too, look forward to all of our new roles. We have a great future ahead of us and much work to do as we continue to make communities stronger through the essential water and wastewater services we provide.

Turning to Slide 15, I'll provide some further insights into our financial results for the quarter. Earnings were \$1.42 per share for the quarter, down \$0.02 per share versus the same period in 2023, but up \$0.02 per share on a weather-normalized basis. Recently completed rate cases in Indiana, West Virginia, and Kentucky, in addition to rate outcomes achieved last year, are driving increased revenues.

While weather led to a net unfavorable impact on earnings, quarter-over-quarter, of an estimated \$0.04 per share, earnings in the second quarter of 2024 were favorably impacted by an estimated \$0.03 per share of weather due to warm and dry conditions, primarily in New Jersey, while earnings were favorably impacted in Q2 of 2023 by an estimated \$0.07 per share of weather due to warm and dry conditions primarily in Missouri, New Jersey, and Pennsylvania.

And looking at operating costs, increased employee-related costs caused O&M to increase \$0.03 per share, as expected, from normal wage increases somewhat offset by lower headcount. Production costs related to fuel, power and chemicals costs were flat compared to this period in 2023.

Next, depreciation increased \$0.07 per share and long-term financing costs increased \$0.11 per share, both as expected, in support of our investment growth. Long-term financing costs include interest on the \$1 billion convertible note issuance from last June and the \$1.4 billion long-term senior note issuance this February. And finally, we had \$0.02 per share of additional interest income from the February 2024 amendment of the seller note related to the sale of HOS. We will continue to break this out quarterly so investors will be able to track the ongoing growth of American Water from its core regulated strategy without this additional interest income.

Turning to Slide 16, earnings were flat for the year-to-date period compared to the same period last year, driven by many of the same factors as in the second quarter. On a weather-normalized basis, earnings have increased \$0.04 per share year-to-date, which, as Susan mentioned, is in-line with our expectations for the first-half of the year.

Turning to our discussion of growth through acquisitions, on Slide 17, you'll see that we successfully closed on five systems for \$119 million through June 30, which added approximately 33,400 new customers. The newest additions include the water and wastewater systems in Salem, New Jersey, and Cape Charles, Virginia, which followed the Granite City, Illinois, wastewater treatment plant acquisition we closed in Q1. We've also added 9,600 customers through organic growth through June 30.

We continue to be well-positioned for strong growth through acquisitions, with 59,000 customer connections and \$483 million under agreement as of quarter end. Many states in our footprint are contributing to this total, which mirrors the broad-based pipeline of opportunities

we have in progress across the country. As a reminder, we have received PUC approval for the acquisition of the 15,000-customer BASA wastewater system in Pennsylvania. The PUC's approval is under appeal, and we await a decision from the Pennsylvania Commonwealth Court to proceed with closing.

On June 13, the Pennsylvania Commission voted to adopt revisions to procedures around Act 12 fair market value. The provisions in this final order were largely the same as the proposed version we covered on the first quarter call. And as we said on the first quarter call, we believe these provisions are a constructive step for continued consolidation in Pennsylvania as they reaffirm the core principles of Act 12. We do expect the closing of current pending transactions will likely take more time than usual, but to be clear, we are confident in our Pennsylvania acquisition pipeline.

Slide 18 is a summary of our continued strong financial position. Our total debt to capital ratio as of June 30, net of our \$48 million of cash on hand is 56%, which is comfortably within our long-term target of less than 60%.

And finally, on Slide 19, yesterday we announced that we are raising our 2024 EPS guidance by narrowing it to the top-half of the range we first disclosed in February. The 2024 EPS guidance range is now \$5.25 to \$5.30, from \$5.20 to \$5.30 previously, and still on a weather-normalized basis. As Susan mentioned, this change is driven by lower than expected declines in customer usage, which is something we track closely and now believe we can count on for the remainder of the year.

Coupled with the fact that we have several revenue increases effective in Q2 and Q3, we expect second half 2024 will deliver financial results to achieve this narrow guidance range. This puts us on track to deliver 8.5% EPS growth in 2024 at the new midpoint.

Our high-level outlook for 2024 otherwise remains unchanged from what we previously disclosed, and we again affirm our long-term financial targets. We believe our industry-leading EPS and dividend growth, coupled with our affordability position and ESG leadership, will continue to be highly valued and rewarded by investors. We believe these aspects of our business and our position as the largest and most geographically diversified water and wastewater utility in the country distinguish us from all other utilities.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the question-and-answer session. (Operator Instructions) The first question comes from Durgesh Chopra from Evercore ISI. Please go ahead.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, team. Good morning. First off, congrats on all the leadership announcements here to all of you.

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

Good morning, Durgesh. Thanks.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Good morning, Susan. Susan, thank you for all the color you provided as it relates to Pennsylvania rate case. I'm just thinking about how, if at all, this changes your regulatory strategy in the state, the timing of rate cases, the ask, the capital spending, how should we think about that just thinking about the impacts of the order?

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

Yes, I think it's a great question. It's obviously something we're going to continue to analyze very closely as we continue to work on our plan update for the fall. But as we said in prepared remarks, the need is not going away. The state of infrastructure and the need for continued focus on improvements and resiliency is not declining in any way. So we know we have investments that need to be made in Pennsylvania. We will need to look, though, at how we -- how and how much capital we allocate to the state of Pennsylvania relative to our other states given this low ROE result in Pennsylvania. It is a real balance of shareholder expectations and the allocation of capital that we really need to think through.

Again, we're not going to compromise service. We're not going to compromise safety in any way. But as we think about the pace at which we are making investments, we do have to take into account the return opportunity provided to investors. So I think it's just a question, Durgesh, we're going to have to continue to evaluate a bit, and we'll have more to say about that as we get into sort of our fall planning and updates that we'll provide later in the fall. In total, we don't expect our capital plans to change at all. We, again, know that the need exists across our entire territory, and to the extent we shift dollars from one state to the other, should not impact our total expectations.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. That's very helpful. That's all I had. Thank you.

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

Thanks, Durgesh.

Operator

The next question comes from Richard Sunderland from JPMorgan. Please go ahead.

Q - Richard Sunderland {BIO 20365913 <GO>}

Hi, good morning. Thank you for the time today, and congratulations as well for all the leadership updates.

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

Thanks, Rich.

Q - Richard Sunderland {BIO 20365913 <GO>}

Following-up on the capital reallocation question earlier. I understand the considerations you just laid out, particularly around ROE, but wanted to ask this specific to M&A in Pennsylvania. Is that something you're also looking at potentially slowing the pace of acquisitions in the state?

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

Yes. Again, I think there's so many opportunities in all of our states, really, from an acquisition growth perspective, and we know we've got a great pipeline in Pennsylvania, a lot of good opportunities there, and our team continues to work very, very hard to identify those opportunities and move them all along, and we're not going to slow that pace at all. I think if there's a pace issue at all in Pennsylvania, it'll really be around just the environment related to fair market value and the Commission's process they've put in place to review acquisitions, which we think, by the way, is very positive.

We think the approach the Commission has taken there to really put some guidelines around looking at acquisitions and benefits being provided to customers we think will be helpful. But it's still a difficult environment to get those transactions across the finish line. So again, our view is we don't change anything about what we're doing. We'll see how the process works with all the parties involved in those types of proceedings and how the Commission handles all of that through the approval process.

Q - Richard Sunderland {BIO 20365913 <GO>}

Got it. That's helpful commentary there. And then separately, you pointed out the 2H weighting to earnings and very clear what the drivers of that are. I guess thinking about this dynamic over your forecast period, how do you see your EPS profile tracking over the period? Do you expect any lumpiness in results?

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

Yes, I'll probably turn to John on that. John, do you want to comment there?

A - John C. Griffith {BIO 22806522 <GO>}

Sure. Rich, not lumpiness. So we maintain our 7% to 9% long-term growth. We don't -- we've been asked a question in the past off of what base year, we don't pick a base year. As you know,

we came out of a transition in 2021 selling HOS, selling New York. That was '21 to '22. '22 to '23, we were inside of the 7% to 9%, we expect to be this year. And we frankly think our goal is that it shouldn't matter a lot what year somebody picks. We do, as everyone is aware, have the note coming due in 2026, but that's an event that we've been planning for and we will continue to plan for. So we're not -- so we expect to remain in the 7% to 9% range.

Q - Richard Sunderland {BIO 20365913 <GO>}

Got it. Thank you for the time today. I'll leave it there.

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

Thanks, Rich.

Operator

The next question comes from Paul Zimbardo from Jefferies. Please go ahead.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Hi, good morning, team. Thanks for taking the call.

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

Hey, good morning, Paul.

A - Cheryl D. Norton {BIO 17107572 <GO>}

Good morning.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Great. Now, my first question was just if you could unpack a little bit some of the detailed guidance changes within the subcomponents, like in particular, you mentioned that decline -- lower than expected decline in customer usage, like how much of that was the guidance raise and just if that carries forward? Also, there's some moves in like MSG and other. If you could just help unpack some of the more material pieces in the change?

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

Yes, John can add to it. I'd just say high-level, Paul, that's really it. We've continued to track customer usage trends pre and post-COVID. And we've certainly expected some measure of customer behavior and it's probably not tracked quite as we expected and that's really the driver, I think, of what we're seeing so far in results this year and the reason that we've increased our guidance by narrowing the range.

John, anything to add there?

A - John C. Griffith {BIO 22806522 <GO>}

No, if you think about kind of a midpoint to midpoint change, Paul, we're talking about a few cents here. So I think you've -- I think Susan got it right.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Yes. Okay. Great. And then just to follow-up on Durgesh's, Richard's questions about Pennsylvania. Does the commentary about like potentially shift CapEx around also carry to interest in M&A in Pennsylvania? I know it's been kind of along the arduous road and the changes legislative at the Commission. Just any change in your views about kind of growing inorganically in Pennsylvania as well?

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

Yes, as I said, Paul, just a minute ago, I think in response to Richard's question, it really doesn't change our behavior. We've got a very dynamic and robust process in Pennsylvania to identify opportunities. We've got a great team there that's very focused on identifying opportunities and we'll continue that. We think that the guidance that the Commission has laid out to analyze these transactions going forward is very helpful.

But as I said, it's an environment where multiple parties have opinions relative to these transactions. And so we'll have to see how that continues to play out before the Commission. Again, we think the guidelines are helpful and our part doesn't change in terms of our interest in growing through acquisition in the state of Pennsylvania.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Great. No, thank you. Very clear. And also congrats again to everyone on the leadership changes.

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

Great. Thank you.

Operator

The next question comes from Angie Storozyński from Seaport. Please go ahead.

Q - Angie Storozyński {BIO 15115714 <GO>}

Thank you. So just again, I know it was just one decision in Pennsylvania, but I'm wondering this is the largest rate base for your company. The ROE reduction is quite substantial versus, again, you had a black box settlement, but again, versus the 10% we were all counting on. So as you look to the future, I mean, is there an offset to the slower profitability of this largest asset in your portfolio, or is it just that you're still within the range and so that's why you're reiterating your growth rate from an earnings perspective?

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

Yes, Angie, I think it's again sort of a good question. First, I would just remind folks, and I don't know, back in the back of our deck, we've got detail around rate base on the various jurisdictions. Of course, it changes quickly because we're so active in the regulatory environment, but I think you'll see the gap closing from Pennsylvania to some of our other larger states pretty quickly in terms of rate base. We've been making significant investments all across our territory. So while Pennsylvania is large, we have many other states that are gaining ground in terms of size of investment.

I think the other answer to your question, though, we addressed in prepared remarks, but across our 14 states, we have a lot of opportunity to continue to invest. This need is the same across the country. The need for investment in infrastructure and replacement and resiliency, which I think doesn't get enough of a play. The resiliency issue is a huge one as we see climate changing in different ways in different parts of the country. So we need to continue to focus on our resiliency investment.

We have a ton of opportunity across all of our states to deploy capital. So, as I said, I think in response to the first question, we don't envision any change in our total capital spending. Where we spend it, we will continue to look at.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. That's all I have. Thank you.

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

Thanks, Angie.

Operator

The next question comes from Jonathan Reeder from Wells Fargo. Please go ahead.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Hey, good morning, team, and congrats on the management leadership announcements today.

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

Good morning, Jonathan.

Q - Jonathan Reeder {BIO 18909775 <GO>}

I wanted to build on a couple of the questions that have already been asked, but where exactly does that legal challenge related to Butler stand and how soon do you think that's going to get resolved by the Commonwealth Court?

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

Well, I think that's really it, it's in the court, and we're waiting. I don't know that we have a whole lot more to add in terms of timing, mostly because we don't have any idea. I think the court will act when it's prepared to do so and we are really just at this point waiting on the court's decision.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. But there's no like precedent in terms of like how long from the point that the challenge was filed, or are you just waiting on the court order, like all the processes played out at this point?

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

Yes, not really. There's -- we've looked at that, but we don't really see any definitive pattern here that would give us the ability to kind of predict timing.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. I understand that. On the Towamencin deal, I know that's the other kind of large pending one in PA for you. With the fair market value revisions, is that one need to like, potentially be recut, or what's the latest thoughts on when that will be filed and potentially approved and closed?

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

Yes, it's in limbo, too. John or Cheryl, do you want to comment on current status there?

A - John C. Griffith {BIO 22806522 <GO>}

Yes, Jonathan, we're still moving forward with the approval process on Towamencin in terms of going to the PUC, so there's no additional update on that.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Has the filing been made with the PUC, or not yet?

A - John C. Griffith {BIO 22806522 <GO>}

Not yet.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. All right. And then I did want to dive a little deeper into Paul's question earlier about the components. Like, I saw there's a \$0.15 increase in the lower-end of the revenue. Is that all due

to the lower-than-expected declines in customer usage or was there even more like downside cushion baked into the previous 105 to 125 range around uncertainty related to the PA outcome or something like that?

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

John, do you want to cover that?

A - John C. Griffith {BIO 22806522 <GO>}

Sure. Jonathan, I think you said it right. We're seeing, on the demand side, a little bit lower or not as much customer usage decline as we expected to see, and that's a significant driver for the change here.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. And that's lower weather-normalized customer usage, right?

A - John C. Griffith {BIO 22806522 <GO>}

Correct.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. What about the long-term financing headwind? I saw the midpoint there came down by like \$0.075. Is that it all relates to the pushback in the expected closing dates of like Butler and Towamencin?

A - John C. Griffith {BIO 22806522 <GO>}

No, the financing, Jonathan, really just relates to the timing of the financings that we've done to-date in terms of the convert that we issued last June and then the straight debt that we issued this year.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. So that's --

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

Yes, I think that's the bulk of it. There is a little bit of an impact from just a delayed closing on the BASA acquisition, too, since we have not financed that, essentially. So there's a little bit of contribution there, too.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. Yes. No, I thought the last time you updated it, you had already done that February \$1.4 billion offer and so I thought that was already wrapped in there.

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

Well, we've been sort of waiting on the closing of that for a while, so we probably didn't have fully baked in our expectations around that earlier in the year.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. Thank you for that. And then on the MSG and other, I guess kind of what caused it to turn into a potential headwind in '24 versus, like kind of a \$0.05 benefit? Is that something that is kind of ongoing or is it timing-related or?

A - John C. Griffith {BIO 22806522 <GO>}

No, that's not an ongoing MSG issue. That's just a collection of smaller, modest puts and takes that are one-offs.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. All right. Great. Thank you so much for the time today. I appreciate it.

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

Thanks, Jonathan.

Operator

(Operator Instructions) The next question comes from Aditya Gandhi from Wolfe Research. Please go ahead.

Q - Aditya Gandhi {BIO 22175616 <GO>}

Good morning, Susan, Cheryl and John. Can you hear me?

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

We can. Good morning, Aditya.

Q - Aditya Gandhi {BIO 22175616 <GO>}

Good morning. Congratulations on the leadership updates. I just wanted to follow-up on one of the Pennsylvania questions that was asked earlier as it relates to the lower ROE and your 7% to 9% EPS CAGR. I understand you just reaffirmed it today, but in the interim, while the rate base in your other states picks up, should we be expecting an impact where you're maybe trending

towards the lower-end of your range in the near-term, or are there any other levers or offsets that we should be considering?

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

I would say in a word, no. We've raised our guidance by narrowing the range to the upper half, and we obviously were taking into account this decision on Pennsylvania, so no impact, and we reaffirmed our long-term targets.

Q - Aditya Gandhi {BIO 22175616 <GO>}

Got it. Okay. Have there been any material updates on the PFAS multi-district litigation where you're still waiting for proceeds from some of the defendants there?

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

Cheryl, do you want to cover that?

A - Cheryl D. Norton {BIO 17107572 <GO>}

Yes. Sure. Yes. So we have submitted all of our data that was requested to determine what that payout would be, and now we're just waiting to hear that they've closed that period. It was supposed to close last week, and it could get extended, but we think that the date will hold firm, but now we just have to wait for them to do all the calculations to determine what the payout will be. We don't know for sure when that's going to happen.

Q - Aditya Gandhi {BIO 22175616 <GO>}

Got it. That's all I had. Thank you.

Operator

Seeing that there are no further questions, this concludes our question-and-answer session. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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