Q2 2017 Earnings Call

Company Participants

- Edward D. Vallejo, Vice President, Investor Relations
- Linda G. Sullivan, Chief Financial Officer & Executive Vice President
- Susan N. Story, President, Chief Executive Officer & Director
- Walter Lynch, Executive Vice President and Chief Operating Officer

Other Participants

- Angie Storozynski, Analyst, Macquarie Capital (USA), Inc.
- Jonathan Reeder, Analyst, Wells Fargo Securities LLC
- Michael Lapides, Analyst, Goldman Sachs & Co.
- Spencer E. Joyce, Analyst, J.J.B. Hilliard, W.L. Lyons LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the American Water's Second Quarter 2017 Earnings Conference Call. As a reminder this call is being recorded, and is also being webcast with an accompanying slide presentation through the company's Investor Relations website. Following the earnings conference call, an audio archive of the call will be available through August 10, 2017. 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 10110707. The online webcast will be available at American Water's Investor Relations home page at ir.amwater.com.

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, Brandon, and good morning, everyone. And thank you for joining us for today's call. We will keep the call to about an hour, and at the end of our prepared remarks we will open the call up to questions. During the course of 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 unknown risks, uncertainties and other factors that may cause actual results to be materially different from the results indicated or implied by such statements.

Additional information regarding these risks, uncertainties, and factors as well as a more detailed analysis of our financials and other important information is provided in the earnings release and in our June 30, 2017 Form 10-Q, each as filed with the SEC. Reconciliations for non-GAAP financial information discussed on this conference call, including adjusted return on equity and our adjusted O&M efficiency ratio can be found in the appendix of the slide deck for this call. Also this slide deck has been posted to our Investor Relations page of our website. All statements in this call related to earnings and earnings per share refer to diluted earnings and earnings per share.

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

Susan N. Story {BIO 3335156 <GO>}

Thanks, Ed. Good morning, everyone, and thanks for joining us. Today, our CFO, Linda Sullivan, will cover our second quarter financial results, and COO, Walter Lynch, will give key updates on our operations. I'll start with what I'm sure are your two main questions today, why our earnings were down $0.04 for the quarter, and why we're affirming our 2017 earnings guidance of $2.98 to $3.08. A key fact is that our Regulated Business continues to execute and deliver solid results. Second quarter 2017 results were impacted by several items, some of which we've noted in earlier calls. The primary negatives for the quarter were two key 2017 items, and two favorable items in the second quarter of 2016, which did not recur this year. $0.02 of earnings were down quarter-over-quarter from lower capital upgrades in our Military Services group. We've covered this on past calls, and it's related to reduced military budgets, combined with the completion of a large wastewater project at Fort Polk in the first half of 2016.

Additionally, we had a one-time $0.02 tax adjustment from a state income tax change in New York that Linda mentioned on our last quarter call. She'll discuss this in more detail as well as another state income tax change in Illinois. The quarter was also impacted by last year's favorable weather of $0.02 per share, compared to a more normal second quarter this year, and a 2016 one-time, $0.01 benefit from an AWE contract settlement. However, even including these items in our range, we continue to affirm our $2.98 to $3.08 EPS guidance for 2017.

Our Regulated core business continues solid growth, delivering a 3.7% increase in net income for the quarter. During the first half of 2017, we added approximately 15,000 customers through closed acquisitions and 7,000 from organic growth. Walter will speak a little bit more about the pending acquisition agreements we have in place as of July 31st that will add about 34,000 additional customers.

We continue to invest in our Regulated Business. This year we will invest $1.5 billion to $1.6 billion total capital, with a vast majority dedicated to water and wastewater system improvements and upgrades. We balance those investments by operating efficiently and effectively, which is reflected in our O&M efficiency ratio.

On the Market-based side, although we are experiencing lower capital upgrades in Military Services, we continue to perform our 50-year O&M contracts quite effectively. We are completing the capital upgrades we do have, and we're working with bases to identify potential infrastructure projects for the 2018 fiscal year. Additionally, we have eight RFPs outstanding, with the possibility of one or two awards being made this year by the Department of Defense. We continue to expand homeowner services, including a new partnership with Yonkers, New York. At Keystone Clearwater we are seeing increases in rig counts and well completions in the Appalachian region, and have an increased backlog of work scheduled in the second half of the year.

So while there are a number of items impacting this quarter's results, we remain confident in our ability to deliver earnings for 2017 in our guidance range of $2.98 to $3.08. Beyond 2017 and for the longer term, our business fundamentals and outlook continue to be strong and compelling. Our growth triangle still holds, as does our long-term 7% to 10% EPS guidance.

Now, let me turn the call over to Walter to give you his update on our Regulated Business.

Walter Lynch {BIO 6064780 <GO>}

Thanks, and good morning, everyone. As Susan mentioned, our Regulated Businesses delivered year-over-year second quarter growth by continuing capital investments and driving operating efficiencies to benefit our customers. Let's walk through some highlights of this quarter. On July 21st, after a strong show of support in the New Jersey Legislature, Governor Christie signed the Water Quality Accountability Act. In fact, the New Jersey State Assembly, in a bi-partisan show of support, passed the legislation 76-0, which was followed by the State Senate vote of 39-0. This legislation calls for such things like regular testing of valves and hydrants, a 150-year pipe replacement rate, the implementation of a cyber security program, and action plans for notices of violation. We see this as a good thing because, first and foremost, it ensures that all citizens in New Jersey have safe, secure and clean water. It's also a great model for future legislation across the nation. American Water stands ready to be a solutions provider as other systems look to make needed investments.

This quarter, two states received orders to adjust rates. The New York Public Service Commission issued an order that will add $3.6 million in annualized revenue to recover about $150 million in water system improvements. These investments made over the past five years include replacing over 33 miles of water mains, and bringing one new iron removal treatment plant on line, while making improvements to three other treatment plants. We also reduced operating expenses by $2.7 million in the same time period. In Virginia, the State Corporation Commission issued an order that adds $5.2 million in annualized revenue to recover $53 million in infrastructure improvements made since 2012. Here, too, we reduced operating expenses by 2% since our last rate case. This is a great job by our New York and Virginia teams, as every dollar we save we can invest $7 in our systems with no customer bill impact.

During the quarter, we filed two rate requests; one in Pennsylvania, which we discussed last quarter; and one in Missouri. On June 30th we filed a rate case in Missouri requesting an increase of $84 million in annual revenue. This request covers investment of $490 million in water and wastewater infrastructure. Included in this investment is a replacement of a large treatment plant at Parkville, and the installation of AMI meters in St. Louis County, which will give customers more timely billing information. It also helps us monitor usage better, which is important in identifying leaks. Finally, in West Virginia, we filed for an updated infrastructure surcharge to incorporate new projects to be started in 2018 over and above the 2017 projects now underway. The 2018 projects include $29.9 million that we'll invest in various system-wide upgrades, including replacement or upgrade of more than 39 miles of water mains, and upsizing two water storage tanks. These investments will drive system reliability and equate to only a $1 increase per customer per month.

Turning to slide 10, we added about 15,000 new customers from closed acquisitions through June. As discussed last quarter, we closed on our Shorelands, New Jersey acquisition adding 11,000 customers. In California, we closed the Meadowbrook Water Company, serving approximately 1,700 customers. We also entered into a contract to purchase the Fruitridge Vista Water Company, which serves approximately 4,800 customers. Among the acquisitions pending approval, the largest is McKeesport, Pennsylvania, which will add 22,000 customers. We expect that acquisition will close later this year or in early 2018. This and other pending acquisitions will add approximately 34,000 customers. The remaining 7,000 new customers added during the first half of the year came from organic growth.

Moving to slide 11, we continue to increase operating efficiencies across our company so that we can make smart investments without significantly impacting customer bills. Our adjusted O&M efficiency ratio improved to 34.5% for the last 12 months ending June 30, 2017. We continue to work towards our goal of 32.5% by 2021. Let me highlight two examples of the steps we're taking to drive efficiencies. After modifying our process for new service installation, a field worker now has the ability to tap the main, run the service line and install the meter on one visit, as opposed to multiple visits in the past. As a result, the project team generated nearly $250,000 in savings in eight states over the past 12 months. We plan to roll this new process out nationally. In addition, we continue to drive efficiencies, reduce waste and improve safety across the entire company by routinely conducting waste walks. One waste walk in Tennessee resulted in the modification of existing meter lids, which improved meter reading accuracy and resulted in annual savings of about $150,000. We're looking to expand this modification across all of our systems.

On slide 12, one final highlight is in the town of Bel Air, Maryland, where we've identified a much needed backup water supply. We recently broke ground for a 90 million gallon water impoundment reservoir and a new intake. If all goes as planned, the $50 million impoundment will provide service in 2019. This is a great example of many parties coming together to ensure a long-term water supply solution. We thank state and local officials, community members from Bel Air and Hartford County for helping make this solution a reality. In fact, the Town Administrator, Jesse Bane, said that the solution saved the town from what could have been its eventual demise if it didn't have a reliable source for water.

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

Linda G. Sullivan {BIO 7300156 <GO>}

Thank you, Walter, and good morning, everyone. Today I will cover our second quarter results, two legislative tax changes impacting us this year, and our earnings guidance range. Turning to slide 14, second quarter 2017 earnings were $0.73 per share, down $0.04 from second quarter last year. Susan outlined the primary drivers of the lower quarter-over-quarter results. So let me walk through the results by business segment. I'll start with our Regulated segment. For the quarter our Regulated Businesses were up $0.02 per share. Revenue was up $0.12 per share. Included in that $0.12 increase was about $0.09 from authorized rate cases and infrastructure mechanisms to support capital growth, and $0.04 from acquisitions and organic growth. Partially offsetting this was $0.01 of lower demand.

Next, as Susan mentioned, we had favorable weather in the second quarter of last year, which negatively impacted the quarterly comparison by $0.02 per share. O&M expense was higher $0.04 per share from increased production costs mainly in California, increased waste disposal costs driven by acquisition growth, and higher customer uncollectible expense. Finally, we had higher depreciation and interest expense of $0.04 per share driven by our investment growth. I would like to point out that although the growth rate for the Regulated Businesses was lower this quarter, their results are on plan for the year. Turning to the Market-based Businesses, we were down $0.02 per share compared to the same period last year. As anticipated, we continued to experience lower capital upgrades in the Military Services group, which includes the quarter-over-quarter impact from completion of the major project at Fort Polk in mid-2016.

In addition, as Susan mentioned, in the second quarter of 2016 we had a $0.01 benefit from an AWE contract settlement. Homeowner services came in relatively flat for the quarter as revenue growth of $4 million was offset by higher claims expense and several true-ups related to our system implementation last year. Keystone results were also relatively flat for the quarter; although, we are seeing increased activity and backlog expected to favorably impact the second half of the year. Lastly, the Parent was down $0.04 per share in the quarter; $0.02 was due to the one-time cumulative tax adjustment from the legislative change adopted in New York during the second quarter, which I'll cover in more detail in a moment. We also had higher interest expense and other of $0.02 to support growth.

On slide 15, let me discuss in more detail two legislative tax changes that occurred this year. As I discussed last quarter, we had a legislative change in New York that no longer allowed water utilities to qualify for the manufacturing exemption. This will increase our effective state tax rate in New York beginning in January of 2018. Also, effective July 1 of this year, Illinois increased the state's corporate income tax rate from 7.75% to 9.5%. Both of these changes require us to remeasure our deferred tax balances at the new rates in the period of the tax law change, so in the second quarter for New York and the third quarter for Illinois. This one-time non-cash cumulative adjustment of the deferred tax balances will total $17 million.

The portion of this adjustment calculated on a standalone basis for each regulated state subsidiary is expected to be recovered through future customer rates, and will be recorded as a regulatory asset of $10 million in total. The remaining portion will be allocated to the parent through our state tax apportionment factors, and will reduce 2017 earnings by $7 million, or $0.04 per share, in total. This earnings decrease is included in our annual earnings guidance range affirmed today.

Turning to slide 16, let me provide an update on our regulatory filings. We have $65.4 million in annualized new revenues effective since January 1st of this year. This includes $43 million authorized through general rate cases, and $22.4 million from infrastructure mechanisms. We have also filed requests and are awaiting final orders on three rate cases and two infrastructure charges for a total annualized revenue request of $234.9 million.

Turning to slide 17, today we are affirming our 2017 earnings guidance range of $2.98 to $3.08 per share. I would like to call out a few items that are included in the earnings guidance range. First, weather variability of plus or minus $0.07 is included in the range. The third quarter is generally when we experience the majority of our weather impacts. And through July, we have experienced warmer weather in several states, approximately a $0.01 benefit versus normal weather in July. However, as you know, we are only one month into the third quarter. Second, as we mentioned at our December investor conference and previous earnings calls, we expect the lower capital upgrades in the Military Services group to continue through 2017 due to the completion of the large project at Fort Polk in mid-2016 and reduced military budgets.

And then finally, included in the guidance range are the portion of the one-time cumulative tax adjustments expected to reduce 2017 earnings by $0.04 per share, as I discussed earlier. Again, these items are included in our affirmed earnings guidance range of $2.98 to $3.08 per share.

With that, I'll turn it back over to Susan.

Susan N. Story {BIO 3335156 <GO>}

Thanks, Walter and Linda. Before taking your questions, I'd like to talk a few minutes about customer-owned lead service lines and American Water's efforts to address this growing national issue. With the problems of lead pipe highlighted in Flint last year, we know that having confidence in the quality of their water is most critical to our customers. American Water has increased our communications and educational efforts to our customers about lead, and we're taking progressive steps to help them with their own lead lines. Our scientists, along with the EPA, have determined that when we're replacing our water main, it's in the customer's best interest to replace their own lead service lines at the same time. So we're working with our states to develop plans to do just that, which includes a priority focus on low income customers.

Pennsylvania American Water has filed a PUC request to replace customer-owned lead service lines when we're repairing or replacing company-owned lines. Customers there who believe they have a lead line may also contact the company, and once verified, we would replace them over a period of time. In New Jersey we conducted a lead service line replacement pilot project in a financially-distressed community and replaced customer lead lines when we found them. We're working with our regulators at the BPU on recovery of these investments. We will continue to replace customer-owned lead lines as they are encountered during our main renewal and replacement program.

In Missouri we have filed a plan and have already replaced around 60 customer lines in a pilot project. We expect to replace lead service lines of about 100 to 150 customer homes this year in Missouri. In fact, you can see a picture on the bottom left of an impressive hardworking crew with one light weight on the far-right side in her steel toe boots and hardhat. While in St. Louis County last week, I had the opportunity to watch our crews do a water main replacement, and identified those homes with customer lead service lines for replacement. They said everyone was very positive, and one customer even gave our guy a bear hug. In Indiana, Enabling legislation passed for replacement of customer-owned lead service lines. We're working with the Indiana Utility Regulatory Commission for approval for our plan under the new law, including projects in financially-distressed communities with higher lead line concentrations.

And finally, the Virginia Department of Health is funding a grant program for lead service line replacements, and we're pleased that Virginia American was approved for some of the funding. Our efforts are beyond anything that is required, and are driven first and foremost by our commitment to the safety of our customers and our communities. It is simply the right thing to do.

So with that, operator, we're happy to take the questions of any of our participants.

Q&A

Operator

Thank you. Our first question comes from Michael Lapides with Goldman Sachs. Please go ahead.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey, guys. Just curious on two things, one on your Regulated Businesses. You've got some pretty big rate cases outstanding, right? I mean, Pennsylvania, for example, I think Missouri the other, both in the $85 million to $100 million range. Just curious, what's embedded in the multi-year growth rate for outcomes in those? And how much of those rate increases are tied to costs that you're not incurring today that you could pull back on if you get outcomes in those cases that turn out to be a good bit less than what you're seeking?

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

So Michael, as you know, when we put together our five-year financial plan, we look at what do we believe are going to be successful outcomes for us to continue to invest in our systems and make those rates affordable for our customers. So embedded in our 7% to 10% EPS growth range are those judgments that we use on an ongoing basis.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. One other question. Can you talk a little bit about what you think the returns on invested capital are for your Market-based Businesses these days? Are you earning utility-like returns or something that are dramatically above or below that level?

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

Yes, Michael. We look at that from the standpoint of risk adjusted returns. And so when we look at each of the businesses in our Market-based Business, we can think of it a little bit differently based on the risk return profile of each of those businesses. So we've consistently said when we look at our Military business, it's kind of regulated like in risk profile. So you'd expect the returns to be somewhat commensurate with that. And then we look at homeowner services and Keystone based on their risk-adjusted returns.

And also remember, Michael, these are very much a margin business. I mean, we invest very, very little capital, actual capital, to the same point, it's not taking capital away from the Regulated Business because we do very little capital investments. And in fact, when we talk about the capital projects, or the fixed capital upgrades on our military bases, that's working capital only because the way the Department of Defense operates is typically they like to own the assets. So we basically get recovery, plus a margin on that working capital. So another way to look at is, it's more of a margin business.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. One follow up on that. Just curious, how is, given results for the first half of the year, the earnings growth expectations for the marked-based businesses relative to what you laid out at the Analyst Day six or seven months ago.

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

Okay. Thank you, Michael, for that question. This quarter it's down. We've talked about it this year. When we do our financial plan, we look at a five-year time period. We also talked today earlier about the fact that our growth triangle is intact. So we do planning on a five-year cycle. If we ever saw a point at which we did not think that the Market-based Business over the longer term would be able to deliver what we've outlined, we would change it. That is not the case right now.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you, guys. Much appreciated.

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

Thanks, Michael.

Operator

Our next question comes from Spencer Joyce with Hilliard Lyons. Please go ahead.

Q - Spencer E. Joyce {BIO 17611965 <GO>}

Hi. Good morning. Thanks for taking the call. One quick one from me, perhaps, Linda. I know we have two kind of discrete tax items to discuss this morning, both in New York and Illinois. And my question is, if you're seeing any other measures in other states you operate in that could lead to some more of this type of item, or if it really is just kind of a random event that we have a couple of these to discuss this morning.

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

So we have seen these two from a legislative tax change position. We have also seen, in Missouri, several of our counties are looking at changing the way that they calculate some of the property taxes in those areas. So we are seeing that across three of our states this year. We continue to believe that these items on the Regulated Business will be recovered through our customer rates. And so, we're monitoring this very carefully so that we can continue to drive down our customer rates as best we can.

Q - Spencer E. Joyce {BIO 17611965 <GO>}

Okay. And thank you for the clarity there on potentially getting that in rates. That's all I had. Thanks.

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

Thank you, Spencer.

Operator

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

Q - Jonathan Reeder {BIO 18909775 <GO>}

Hey. Good morning, Susan, Linda and Walter. How are you all?

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

Good, Jonathan. How are you?

Q - Jonathan Reeder {BIO 18909775 <GO>}

I'm doing pretty good, all things considered. Just wondering, Walter, what's the remaining process for the McKeesport approval? I know you said you thought it could close later this year or early 2018.

A - Walter Lynch {BIO 6064780 <GO>}

Jonathan, there are hearings actually today and tomorrow on McKeesport, and they have a six-month requirement. So we're looking sometime in December to be able to get an order, and then we've got to work through just some issues with the DEP before we take ownership. So that's really the process. Six months, we're a good deal through that, and hopefully we're going to take ownership at the end of this year or beginning of 2018.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. Have the third-party evaluations or valuation of the systems, have those come in already?

A - Walter Lynch {BIO 6064780 <GO>}

Yes. They've come in, and the Commission is actually working through those. It's part of the evaluation.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. But from your end, I mean, no issues there?

A - Walter Lynch {BIO 6064780 <GO>}

Well, we just continue to work through the Commission and any questions they have, and it's just part of the process, Jonathan.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. Just wondering, Susan, are there any other states considering bills similar to the New Jersey Water Quality Accountability Act? Is that kind of model legislation that you're going to be pursuing in other states, where you think it kind of opens up the door further for M&A opportunity?

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

I will start, and then Walter can jump in. So we absolutely believe that it should be model legislation for all the states across the country, first and foremost, because of the fact that the ability to ensure the safety and quality of water is something that every citizen should be able to expect, and it shouldn't matter who is running their water system in terms of the quality of that water. So we think it is good model legislation. The fact, as Walter mentioned, that it was unanimously passed in the Assembly, the Senate, is just really extraordinary in this day and age. So we're very encouraged by that. We do believe it's model, and Walter can talk about any efforts that we've got going across the rest of our states.

A - Walter Lynch {BIO 6064780 <GO>}

Yeah. Just to emphasize, it is model legislation. And I think Senator Sweeney and Governor Christie did a great job just promoting the benefits for the residents in New Jersey. We know that other states are looking at similar legislation, primarily in the Midwest. And so, we'll be working with them as we can in each of our states to make sure that we give our view as to the benefits of that legislation and how, again, the purpose is to make the water safe in the communities that are in the states.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Right. And then last, I don't know if you guys have any thoughts – California isn't the biggest subsidiary for you guys, but the cost of capital proceeding there, ORA came out with their recommendation. What's kind of your reaction to that? Do you think a settlement on reasonable terms will be achievable from your end?

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

Yeah, Jonathan. I think the ORA testimony was not unexpected. As you know, they put in there a lower ROE compared to our 10.8% ROE request. They did come in also with a lower cost of equity just north of 54% where we requested 55%. So not unexpected on all of this. We will be filing rebuttal testimony later this month. And then we would expect a final decision in the normal course by year-end.

Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. Great. Thanks for the color.

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

Thanks, Jonathan.

Operator

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

Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you. So I wanted to ask about your shale water business. It's broke even last year. It seems like we had some increased drilling activity in the Appalachian region, and yet, we haven't yet seen the pickup of earnings. Why, I mean, is there basically a lag between when those activities pick up and when you record additional revenues?

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

Thanks, Angie. This is Susan. So you're absolutely right on all accounts. But what we are seeing in the Appalachian is that we're seeing more active rigs. There's a timing issue there. And one of the comments I made, is that we plan projects and schedule projects, and we have a backlog scheduled for the second half of the year. What we found in the Appalachian is that it did pick up, but it's not picked up as quickly. And the interesting thing that's happening in the Appalachian now because things have been quite busy in the Permian that a lot of the EMPs have actually had trouble keeping groups, keeping the crews on the rig side. So now they're trying to get more people up here. So it's been a little slower than they thought. So that's one of the things that we're hearing from our Keystone Clearwater.

They are now trying to make sure that we're able to recruit enough people. I mean, we have hired 75 people just this year, and are trying to hire even more to staff our crew. So it's pretty competitive to get crews. Now, with what's happening in the oil markets now, don't know if that's going to slow down in the Permian and release more for work in the Appalachian, we certainly hope so, but we do have active projects planned. And interesting, just from a statistics standpoint, as of July 28, there were 192 active rigs in the U.S. and 75 were in the Appalachian Basin, and just last year that was 86. So we do see an increase in the number of rigs, the number of completions. And hopefully some of the labor shortage issues will be taken care of so we can see more of a buildup in Appalachian work more quickly.

Q - Angie Storozynski {BIO 15115714 <GO>}

Great. Thank you.

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

Thanks, Angie.

Operator

At this time, there are no more questions in the queue. I would now like to turn it back over to Susan Story for any closing remarks.

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

Thank you so much. First of all, we want to thank everyone for participating in our call today. We value you as our investor owners and as the financial analysts who research our company for the benefit of your clients. We will always be open and transparent in all of our discussions and dealings with you. So you can have complete confidence in your decisions around our company and investments in our stock. If we have not been able to address any of your questions, or if you have additional questions, please call Ed and Ralph and they'll be happy to help you. Thanks again for listening, and we hope you have a great week.

Operator

The conference is now concluded. Thank you for attending. You may now disconnect.