

American Water Works Company, Inc. (AWK) CEO Susan Story on Q3 2019 Results - Earnings Call Transcript

Oct. 31, 2019 12:25 PM ET | 1 Like

by: SA Transcripts

Q3: 10-30-19 Earnings Summary

 [Press Release](#)  [Slides](#)

EPS of \$1.33 beats by \$0.03 | Revenue of \$1.01B (3.79% Y/Y) beats by \$5.2M

Earning Call Audio

 Subscribers Only

00:00

-36:38

American Water Works Company, Inc. (NYSE:AWK) Q3 2019 Earnings Conference Call
October 31, 2019 9:00 AM ET

Company Participants

Ed Vallejo - Vice President of Investor Relations

Susan Story - President and Chief Executive Officer

Susan Hardwick - Chief Financial Officer

Walter Lynch - Chief Operating Officer

Conference Call Participants

Shar Pourreza - Guggenheim securities

Julien Dumoulin-Smith - Bank of America

Durgesh Chopra - Evercore

Richard Verdi - Coker & Palmer

Operator

Good morning, and welcome to the American Water's Third Quarter 2019 Earnings Conference Call. As a reminder, this call is being recorded and is also being webcast with an accompanying slide presentation through the company's Investor Relations website. Following the earnings conference call, an audio archive of the call will be available through November 7, 2019.

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 the replay is 10135909. The audio webcast archive will be available for one year on American Water's Investor Relations website at ir.amwater.com/events.

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

Ed Vallejo

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

However, since these 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 Form 10-Q, each as filed with the SEC.

Reconciliations for non-GAAP financial information discussed in this conference call, including adjusted 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 of our website.

All statements in this call related to earnings and earnings per share refer to diluted earnings and earnings per share. At the end of our prepared remarks, we will of course open the call to your questions.

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

Susan Story

Thanks, Ed. Good morning everyone and thanks for joining us. Today our CFO, Susan Hardwick, will cover our third quarter financial results; and our COO, Walter Lynch will give key updates on our operations. American Water employees continue to deliver strong results. Let me highlight just a few of our third quarter accomplishments.

We continue to have strong financial performance. Adjusted earnings were up 10.8% compared to last year's third quarter, and we saw growth in both our regulated and market based businesses. In our regulated business, we've added more than 57,000 customer connections year-to-date. This includes 46,900 customers through closed acquisitions and 10,400 through organic growth in our existing service areas.

We most recently closed on the water assets of Steelton Borough, Pennsylvania, and Lake Station, Indiana, as well as the wastewater assets of Exeter Township in Pennsylvania. We're excited to welcome our new customers and our new employees. Additionally, in the coming months, we will welcome an additional 26,400 customer connections through agreements that are signed and pending.

Moving to our market based businesses; we're extremely honored to be awarded Department of Defense contracts for the water and wastewater systems at Joint Base San Antonio in Texas, and the United States Military Academy at West Point, New York. Joint Base San Antonio includes Randolph Air Force Base, Fort Sam Houston, Camp Bullis and Lackland Air Force Base. These installations support over 187,000 jobs across the state of Texas.

The United States Military Academy at West Point is the oldest continually operated army post in the United States. The campus is home to 4,400 cadets, and was once home to our own CEO Walter Lynch, a West Point alumnus and Army veteran. The opportunity to expand our military footprint to 16 bases across the country is a testament to American Water's industry leading water research, development and operational excellence.

It's a privilege to ensure the delivery of safe, clean and reliable water and wastewater services for our country's military members and their families. With this continued strong performance and our disciplined approach to our business, we are narrowing our 2019 adjusted EPS guidance to \$3.56 to \$3.64 per share from \$3.54 to \$3.64.

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

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

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

Now, Walter will give a more detailed update on our regulated business.

Walter Lynch

Thanks, Susan and good morning everyone. Our regulated businesses had a strong third quarter and making capital investments to ensure clean, safe and reliable water services. We also continue to improve our operating efficiencies to benefit our customers and grow our business through acquisitions.

On Slide 8, let me touch briefly on the weather. As you recall, we had an unusually wet weather in the second quarter of 2019, which led to a total quarter-over-quarter unfavorable impact of \$0.05. This quarter has been more typical. And once again, you can see how a geographic diversity helps mitigate weather variability. For example, this quarter, New Jersey American Water experienced at or below average precipitation which offset Missouri slightly above average precipitation. As a result, weather had no material impact on our revenues for the third quarter.

Turning the Slide 9, let's walk through some of the regulatory highlights starting with our two pending rate cases in Virginia and California. In November 2018, Virginia American Water filed a general rate case requesting an overall increase of \$5.6 million, driven by approximately \$98 million in infrastructure upgrades since April 2017. Interim rates became effective May 1, 2019 and we expect a decision in the first quarter of 2020.

California American Water filed for new rates this past July, the case covers 2021 through 2023 and requests an increase in authorized revenue of \$46.6 million over three years, beginning with a \$26 million increase proposed for January 1, 2021. The request seeks \$197 million for infrastructure improvement for the 2021 to 2022 capital test years. We expect the decision on this case in late 2020, with new rates to take effect by January 1, 2021.

And other activities, several bills were recently signed into law in Indiana by Governor Holcomb. First, House Bill 1406, known as the Water Infrastructure Funding Act, establishes the first state appropriation of \$20 million per year for water infrastructure investment. Paired with another bill, Senate Bill 4, this combined legislation supports Regional Water planning and the reduction of water loss caused by poor or ageing infrastructure. The goal is to promote a consistent approach to providing clean and safe water across all water systems in Indiana.

A third bill, Senate Bill 472, enhances Indiana's version of fair market value legislation by now including qualified non-municipal systems. Previously, the legislation only covered distressed municipal systems. And in Pennsylvania on October 3, the Pennsylvania Public Utility Commission approved our proposal to replace customer owned lead service lines in

accordance with Act 120. This act authorizes the cost associated with the replacement of the customer owned portion of lead service lines to be included in a regulated utilities rate base.

Turning the Slide 10, we continue to grow the size of our footprint with 19 acquisitions occurring in eight states, totaling 46,900 new customer connections. Earlier this month, Pennsylvania American Water completed the acquisition of both the Steelton Water and Exeter Wastewater Systems. The Steelton water system added approximately 2,400 new water connections. The sale of the water system will allow the Borough to eliminate its existing water debt and invest in capital projects.

In Exeter, Pennsylvania, where we've been providing water service for more than 17 years, we welcomed approximately 9,000 wastewater customer connections. According to township manager John Granger, quote, the sale of the wastewater treatment plant and collection system in the Pennsylvania American Water is a great benefit to current and future residents of Exeter.

The plant and system were becoming an increasing burden on the township as federal and state regulations were becoming too difficult for the township to manage and quote, this is a great example of how communities are better simply because we're there. This marks Pennsylvania American Water's fifth acquisition in the state in 2019.

Indiana American Water also closed on the Lake Station Water System earlier this month, adding about 3,300 water connections to the existing Indiana customer base. We also welcome 10,400 new customer connections from organic growth today, and we'll welcome another 26,400 customer connections through 24 signed agreements in 10 states. As we've shared with you before, with a consistent pipeline of opportunities we see in the water and wastewater industry. We're confident in our discipline, growth strategy and our ability to provide solutions across the nation.

Turning the Slide 11, we continue to bounce making critical investments to ensure reliable service while limiting the impact to our customers' bills. In the first nine months, we've invested approximately \$1.2 billion in our existing regulated infrastructure. At the same time, we're making progress towards our long-term O&M efficiency goal of 31.5% by 2023.

To put this effort into perspective, our adjusted O&M expenses are just slightly higher today than they were in 2010. However, over the last nine years, we welcomed approximately 338,000 customer connections, while expenses only increased at a compound annual growth rate of 0.6%. We're extremely proud of our employees focus and commitment to controlling costs on behalf of our customers.

Moving to Slide 12, we're pleased that our new customer service site myWater is now live for all American Water customers nationwide. Customers are now able to access their accounts with this mobile friendly site. MyWater allows customers to easily make payments, view their water usage history and receive alert notifications from any location 24 hours a day, seven days a week.

We launched this new platform by listening to our customers, who told us they wanted to more easily manage their accounts online. Since the launch, we received very positive customer feedback, especially an ease of use. This is just another great example of how our customers are at the center of everything we do.

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

Susan Hardwick

Thank you, Walter and good morning everyone. Let me start on Slide 14 with the summary of results. Their quarter 2019 consolidated GAAP earnings were \$1.33 per share, compared to \$1.04 per share in 2018. 2018 results included a \$0.06 gain from the sale of the majority of the contracts in our contract services group and a \$0.22 charge from the Keystone impairment.

Excluding these two adjustments in 2018, adjusted earnings per share were up 10.8%, primarily driven by growth in the regulated business. The regulated business segment results were up \$0.12 per share or an increase of 10.2% compared to 2018. The market based business results were about flat and apparent results improved \$0.01 per share compared to 2018.

Our 2019 adjusted earnings through September 30 were \$2.88 per share or a 10.3% increase over the same period last year. Our regulated businesses increased \$0.15 per share, our market based businesses increased \$0.09 per share and finally the parent results improved by \$0.03 per share year-over-year.

Moving to Slide 15 let me walk through the details of the quarterly results by business. Regulated operations were up \$0.12 per share in total. We had \$0.11 per share increase from additional authorized revenue and surcharges to support infrastructure investments, acquisitions and organic growth. Also O&M expense decreased \$0.02 per share for the quarter as a result of the continued focus on cost management and higher costs in the third quarter of 2018, related primarily to the New York American Water settlement.

Depreciation and interest increased \$0.01 per share primarily to support regulated acquisition and investment growth. The market based business results for the quarter were similar to last year on continued strong performance. Finally, earnings at the parent were \$0.01 per share reflective of the impacts of a lower consolidated effective tax rate offset somewhat by increased interest expense.

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

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

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

Now moving on to Slide 19, as we noted in the release, on October 29, 2019, the company's board of directors declared a quarterly dividend of \$0.50 per share of common stock payable on December 4, 2019. This reflects the continuation of the 9.9% increase in the annual dividend declared by the board on April 17, 2019. We continue to be a top leader in dividend growth.

We have grown our dividend at a compound annual growth rate of 10.1% over the last five years and we expect to continue the growth at the high end of that 7% to 10% range. We continue to deliver very strong consolidated results. For the 12 months ended September 2019. Our total company consolidated return on equity is 10.4%. Our weighted average authorized regulated ROE stands at 9.8%.

Regulatory execution, along with strong results from our market based businesses allows us to consistently deliver on our earnings commitment. We believe that delivering on results, combined with our strong earnings growth and superior dividend growth expectations continues to provide excellent value for our investors.

And with that, let me turn the call back over to Susan.

Susan Story

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

You see on this slide just a few of the headlines we're all reading about threats to the safety of drinking water, including lead, Legionella, P5 cyanotoxins [ph]. These are real threats that require expert and knowledgeable people in organizations who have the breadth, depth and experience to ensure the safety of the critical human need of water. And at American Water we never forget that at the end of every water pipe, there's a family that's depending on us to provide this critical need, and that every fire hydrant lives could depend on the right pressures and volumes, and that every wastewater plant serves as a shield against potential disease.

And every community should be stronger because we're there. And at the end of the day, we also know that what we do in our customers and community's best long-term interest will also be in our investors' best long-term interest. And that's what we believe it means to be a truly sustainable company. I want to close our prepared remarks by saying how much our hearts go out to the millions of people who are affected by the horrific fires in California, and how much we are in all of the amazing work being done around the clock by the incredibly brave and talented firefighters. Our California American Water employees have also been working 24x7 to keep water service to our customers there when the power is out.

We're using backup mobile and permanent generators. We're also using remote monitoring for our facilities when they're under mandatory evacuations, so we can minimize the hardship our customers may be facing during these difficult times. We were able to maintain service the entire time during the Kincaid fire and power outages, which affected two of our smaller operations in Geyserville with approximately 300 customer connections and Larkfield with approximately 2,100 connections our infrastructure assets have not been damaged. I just want to publicly thank our hardworking employees who have truly kept the water flowing to our customers under these difficult conditions.

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

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question today comes from Shar Pourreza of Guggenheim securities. Please go ahead.

Shar Pourreza

Hey, good morning, guys.

Susan Story

Good morning Shar.

Shar Pourreza

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

Susan Story

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

Shar Pourreza

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

Susan Story

We really can't comment about anything on the process at this point.

Shar Pourreza

Okay, got it. That's helpful. And then just around the military services, congrats Walter and West Point, and obviously, the Joint Base has done a ton of deals. Is there anything else for the balance of year that we should sort of be thinking about and maybe just quickly on how we're thinking about the opportunity set?

Susan Story

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

Shar Pourreza

Got it and just lastly on California, is there any remaining approvals around the desalination project that's been, I guess, a little bit of pushback at the local level, but is there anything you guys need from a permit or approvals to sort of move forward?

Walter Lynch

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

Shar Pourreza

Terrific, thanks, guys. Congrats on the results today.

Susan Story

Thanks Shar.

Operator

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

Julien Dumoulin-Smith

Hey, good morning to you.

Susan Story

Good morning, Julian.

Julien Dumoulin-Smith

Hey, so a quick question. Can you elaborate a little bit more on Indiana and the perspective impacts of any legislation in that states just to get going here?

Walter Lynch

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

Julien Dumoulin-Smith

Yeah. But just in terms of it translating back to more tangible opportunities is still a little bit on the way to see it.

Walter Lynch

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

Julien Dumoulin-Smith

Got it, excellent and then can you talk a little bit more we've seen some headlines on Millburn, New Jersey, can you clarify a little bit of what's going on there? I mean, again, I don't want to put too many words out there. But just put some context around the process?

Susan Story

Specifically about what Julien?

Julien Dumoulin-Smith

There were some media articles out there about water quality, so I wanted – checking on that, yeah.

Susan Story

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

And in fact, the EPA has a special program that's called the Unregulated Contaminant Monitoring Rule, which looks at another 40 contaminants that really aren't regulated. But we voluntarily have adopted those, so that they can look and see what the impacts of those are. We meet or surpass all of our states. At the end of the day, there are a lot of groups out there who may decide that they're going to set their own goals and their own policies, but we really can't follow what every individual group does along those lines. So but we are meeting all of the EPA, we are voluntarily adopting 40 that aren't even regulated, but that we're continuing to monitor and we're acting as if they're regulated and meeting all state requirements.

Julien Dumoulin-Smith

Excellent. Thank you so much for the clarity.

Operator

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

Durgesh Chopra

Hey, good morning team.

Susan Story

Good morning Durgesh.

Durgesh Chopra

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

Susan Story

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

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

Durgesh Chopra

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

Susan Story

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

Durgesh Chopra

Awesome, that's great. And then just one final –

Susan Story

I'm sorry, June 1 not June 30.

Durgesh Chopra

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

Susan Story

No, so it may be a little confusing. What we did on the chart is we broke out regulated acquisitions, capital from the infrastructure. So we're still looking at around 1.9 billion, which is what we had guided to, so its 1.9 billion total. And what we expect that breakdown to be is around 1.7 billion into our existing regulated infrastructure and probably 250, 260 million on regulated acquisitions.

Durgesh Chopra

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

Susan Story

Thanks Durgesh.

Operator

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

Richard Verdi

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

Susan Story

Thank you, Rich.

Richard Verdi

Thanks. So I'm quite clear on things and some of my other questions have been answered. But I do want to actually revert back to a question I would periodically ask in the past for an update due to some of the events that transpired during the quarter and to avoid being granular, I'm going to ask this on a very high level. So when we think about the company's portfolio, obviously it has a nice portfolio of states given the quarter report, given quarter reports going back for many quarters, but that doesn't mean that there's not opportunity in states outside the portfolio. On the other hand, to states where the company

had the footprint are very compelling from a need to bring infrastructure perspective and also on the regulatory front. So moving forward in the near to intermediate term is the strategy maybe more to work within the states in which the company operates and try to expand within those states? Or can we maybe expect the company to more and more announces if it's trying to enter other states?

Walter Lynch

Hi, Rich, Walter here.

Richard Verdi

Hi, Walter.

Walter Lynch

No, it's really both. We continue to invest in our infrastructure in the states where we operate; we continue to look for opportunities in those states. But we also look outside our footprint. And for us to enter a new state, we really need a good business environment, a good regulatory environment and then the opportunity to grow to a certain size because we just don't want to buy a small system and just have that system. So we want to be able to expand in the state. So we're looking at that and we actively look at that, but we do both. And as far as growth goes inside, our growth, we're investing, as we said 1.7 billion this year. And we're going to be spending over 250 million to acquire systems in our footprint, which is I think tremendous, and just shows the dedication and the value that we're providing to these communities.

Susan Story

And Walter is exactly right. And into remind many of you, and I think we have said this in the past. When we look at – and we do have a corporate business development group and we're always looking at every state across the country, we actually have them kind of looking at the regulatory environment, the business environment. But the thing that typically will slow us down from going into new state is we believe it's important that within five years, we have 50,000 customer connections because part of our brand is affordability and the fact that we're looking at O&M inefficiency. And if you just have a

couple of 3,000 in a state, it's very hard to get those efficiencies. So when we're looking at whether we would go into new state, those are kind of the three gates that we have that we would go through.

Richard Verdi

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

Susan Story

Thanks, Rich.

Operator

The next question today comes from David Paz [ph] of Wolfe Research. Please go ahead.

Unidentified Analyst

Yeah. Hey, good morning.

Susan Story

Good morning.

Unidentified Analyst

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

Walter Lynch

Yeah, I'll take that question. This is Walter. The primary reason that the staff voted no, was they see the expansion of the Pure Water Monterey recycling project is capable of providing sufficient water to meet the future demands. We don't agree with that. And it's

actually not in line with what the PUC discovered as well as far as the future demand. So that's the real area of contention. And so the November 14 hearing and meeting we're going to be putting our views forward on that. But I mean that's where the disagreement comes in. And we actually had an environmental impact report that stated the demand was much higher as well.

Unidentified Analyst

Great, and just to the extent that, I guess it were to not go for the capital plan, I guess, the expectation there is that you would just kind of backfill any kind of CapEx were lost.

Walter Lynch

Yes, that's right.

Unidentified Analyst

Great, thanks.

Operator

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

Susan Story

Thank you, Alyssa. Thank you all for participating in our call today. Please note that we value you as our investor owners and as a financial analyst who research our company for the benefit of your clients and their futures. We always want to be open and transparent in all of our discussions and dealings with you, so you can have confidence in your decisions around your investments in our stock. If you've not been able to get your question out or if we haven't answered them thoroughly, please call Ed or Ralph and they'll be happy to help. And we're very excited that while we've been the only water utility, which was an EEI associate member for the past three years, we're very pleased that EEI has added a new category of strategic partners for water utilities. And because of this, we will be attending our first EEI Financial Conference in a couple of weeks, and we'll see many of you there.

Also, we will be hosting our Investor Day on Wednesday, December 11 in New York City. We look forward to seeing you all there. Expect an invitation very soon from our IR team. Thanks again for listening.

Operator

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