

Third Quarter 2025 Earnings Results Teleconference

DUSTIN: Ladies and gentlemen, thank you for standing by. Hello, my name is Dustin, and I will be your conference operator today. At this time, I would like to welcome you to California Water Service Group third quarter 2020 earnings conference call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question and answer session. So if you'd like to ask a question at that time, please press star and the number 1 on your telephone keypad. If you'd like to withdraw your question or your question has been answered, please press star 1 again. Thank you. I would now like to turn the conference over to James P. Lynch, senior vice president, CFO, and treasurer. Please go ahead.

JAMES P. LYNCH: Thank you, Dustin. Welcome, everyone, to the third quarter 2025 results call for California Water Service Group. With me today is Marty Kropelnicki, our chairman and CEO, and Greg Milliman, our vice president of rates and regulatory affairs. Replay dial in information for this call can be found in our quarterly results earnings release, which was issued earlier today. The call replay will be available until November 29, 2025.

As a reminder, before we begin, the company has a slide deck to accompany today's earnings call. A slide deck was furnished with an 8-K and is also available at the company's website at wwlp.calwatergroup.com. Before looking at our third quarter 2020 results, I'd like to cover forward-looking statements. During our call, we may make certain forward-looking statements. Because these statements deal with future events, they are subject to various risks and uncertainties, and actual results could differ materially from the company's current expectations.

As a result, we strongly advise all current shareholders and interested parties to carefully read the company's disclosures on risks and uncertainties found in our form 10-K, form 10-Q press releases, and other reports filed with the securities and exchange commission. And now I will turn the call over to Marty.

MARTY KROPELNICKI: Thank you, Jim. Good morning, everyone. Thanks for joining us today. Happy fall. A few items to update you on. First and foremost, I want to start and give a quick update on our 2024 general rate case. The administrative law judge assigned to this case a few weeks ago indicated that he may need additional time to process the rate case given the size and complexity.

It's a little different than the rate case we had last time that was significantly delayed. We know this judge is actively working on the case. Additionally, the assigned commissioner continues to stress the importance of getting decisions out on time, if not early. In addition, during that meeting, the judge also authorized us to file a tier 1 advice letter on January 1 for inflationary offset if the decision is delayed.

That is really different than what we've gone through before historically at Cal Water with the California Public Utilities Commission. This would essentially, if they are late, allow us to put an inflationary step increase with a tier 1 advice letter, effective January 1. Additionally, the judge also granted us a memo account, which gives us the unique authority to track and recover our cost, revenue, and costs that would normally be recovered if the rate case was effective on January 1, 2026.

So I think this is all good news. Again, we don't believe the delay is going to be significant given the commissioner's comments, both in meetings with US, as well as in public forums, as well as the judge actively working on the rate case. And I give the commission some huge kudos for being more transparent.

So those of you that were with us in the last rate case, we didn't know nothing for a long time while the rate case was delayed. So there's good communication going on. They're putting steps in place in the event that the decision is slightly delayed. But given where we are right now, I do not believe that it will be a significant delay. Greg Milliman will talk about that a little bit later in the deck.

Before I turn the call back over to Jim, I want to update you on a couple of things, including a strong financial performance, as well as our operational highlights for the first nine months of 2025. First and foremost, we continue to invest in our water infrastructure. During the quarter, we invested \$135 million. That's up 14.8%. So almost 15% Q3 of this year over Q3 of last year. And we're up 10% year to date over 2024.

In addition, during the quarter, Jim's team was busy. They refinanced short-term borrowings with the issuance of \$370 million of long-term notes and bonds. This transaction was significantly oversubscribed. In fact, I will tell you from a bond deal, it was the most oversubscribed bond deal I've ever had the pleasure of working on in my 30 years of doing this. The nice thing about having a significantly oversubscribed deal is it helps minimize credit spreads, which lowers costs for our customers over the long-run.

We have continued our expansion in Texas. While we wait for the commission to approve our general rate case settlement, we do have an all party settlement in Texas that we're just waiting for final commission approval on. And we received an additional \$24 million in net PFAS settlement proceeds during the quarter, which brings our year to date total recovery of about \$35 million. Again, this will be a direct offset for customer costs as we implement the new PFAS rules.

In addition to that, we've made steady advancement across multiple regulatory proceedings in the service territories that we operate in. So it was a very, very, very busy third quarter. And the third quarter of this year is the third year of the rate case, which is always the hardest year for us in California. And California is by far our largest operating entity. And as Jim's going to walk you through, the financial performance continues to be quite good during the third year of a rate case as we wait for regulatory relief. So, Jim, I'm going to turn it over back to you.

**JAMES P.
LYNCH:**

Great. Thanks, Marty. Well, as Marty mentioned, we did have experience a strong financial performance. And again, that is all the more meaningful considering we are in the third year of the rate case. And that tends to be the year where we're most constrained from an earnings perspective and a cash flow perspective. So we're very pleased with the performance.

Q3 2025 revenue increased \$11.6 million, or 3.9%, to \$311.2 million. And that compares with revenue of \$299.6 million in Q3 of 2024. Net income for the quarter was \$61.2 million, or \$1.03 per diluted share. And that's consistent with our prior year net income of \$60.7 million, or \$1.03 per diluted share.

If we move to slide 6, you can see that the impact of the activity during the third quarter and the impact that that activity was having on our results as compared to 2024. The primary drivers were the tariff rate increases and income tax rate changes, which combined added \$0.30 per diluted share.

And that was mainly offset by consumption decreases, unbilled revenue changes, and water production rate increases, which combined totaled \$0.19 per share. In addition, depreciation and interest rate expenses combined added \$0.09 of additional expenses per share.

Slide 7 shows our year to date financial results. And as we discussed in our Q2 2025 call, the company is delayed 2021 general rate case decision did result in interim rate relief that was recorded in 2024. In reporting our 2025 year to date results, we present both GAAP and non-GAAP metrics for 2024, which you can see on the next several slides.

The non-GAAP financial measures effectively remove the impact of the 2023 interim rate relief from the 2024 results. Operating revenue for the first nine months of 2025 was \$780.2 million compared to \$814.6 million for the first nine months of 2024. That represents a decrease of 34.4 million, or 4.2%. However, when you remove the 2023 interim rate relief from 2024 results, our year to date revenue in 2025 actually increased \$53.1 million, or 7.3%, over the non-GAAP 2024 revenue.

Net income attributable to group was \$116.7 million, or \$1.96 per diluted share. That's a \$54.4 million, or 31.8% decrease, compared to the 171.1 million, or \$2.93 per diluted share, compared to the same period in 2024. But again, in 2023, when you remove the interim rate relief from the 2024 results, our 2025 year to date net income actually increased 9.8 million, or 9.9%, over non-GAAP 2024 year to date net income in earnings per share. That's an increase of \$0.12 in terms of our earnings per share.

The primary drivers of our year to date diluted earnings per share when compared to non-GAAP 2024 results were tariff rate changes, consumption, and income tax rate changes, which added \$0.76 per diluted share. In addition, recall that in Q1 2025, we recorded the recovery of the California Palos Verdes Pipeline Memorandum Account, which added another \$0.05 per share. These increases were partially offset by water production rate volume increases, which totaled \$0.29 per share and an increase in depreciation expense that was \$0.13 per share.

Moving to slide 9, we continue to make significant investments in our water infrastructure, as Marty mentioned, in order to continue the delivery of our safe and reliable water service. Our capital investments for the quarter and year to date were 135.2 million and 364.7 million, respectively.

And that represents, on a year to date basis, a 9.8% or roughly 10% increase compared to 2024. As a reminder, our capital investments do not include an estimated \$217 million of remaining PFAS project expenses. We expect we'll incur those over the next several years.

Turning to slide 10, the positive impact of our capital investment program and what it is having on our regulated rate base is presented on this slide. If approved as requested, the 2024 California GRC and infrastructure improvement plan, coupled with the planned capital investments in our utilities and other states, will result in a compounded annual rate base growth of almost 12%.

Moving to slide 11, we continue to maintain a strong liquidity profile to execute our capital plan and explore a strategic M&A investments. As of the end of the quarter, we had \$76 million in unrestricted cash and 45.6 million in restricted cash. We also had \$255 million available on our bank lines of credit.

As Marty mentioned, in October, we successfully completed \$370 million in long-term financing. That included \$170 million of senior unsecured notes that we issued at group, and \$200 million of first mortgage bonds that we issued at Cal Water. The notes carry interest rates of 4.87%, and 5.22%, and have maturities in 2032 and 2035. The notes also received an A rating from S&P.

The bonds, again, those are at Cal Water, will mature in 2025 and carry an S&P rating of AA minus. The transaction closed on October 1 will further strengthen our balance sheet and support our ongoing infrastructure investments. With that, I'll now turn the call back over to Marty.

MARTY
KROPELNICKI: Jim, one clarification. The bonds, which will mature in 2055.

JAMES P.
LYNCH: The bonds do mature in 2055, yes.

MARTY
KROPELNICKI: Yeah, Perfect. Thank you for clarifying that. I'm on slide 12, looking at our dividend program. We're pleased that yesterday our board announced and declared our 323rd consecutive quarterly dividend in the amount of \$0.30 a share. Earlier this year, in January, the board approved our 58th annual dividend increase as a publicly traded company. This dividend increase for 2025 represents a 10.7% dividend increase and results in a 7.7% five-year compound annual growth rate for our dividend.

Looking ahead on slide 13 and talking about some of our priorities on growth, as mentioned last quarter, BRT, which is a joint venture that we own 94, 95% of, continues to represent a strong area of interest and growth for the company. California Water Service Group made an initial investment in this subsidiary in 2021, with the goal was to support the water and sewer utility development in the South Austin, San Antonio Megaregion.

Year to date, we've added new connections to our utility services, the utilities that we started in that area back in 2021 and 2022. That puts us just shy of 5,000 connections added to our system. In addition to the 1,100 connections that we've added so far year to date this year, we have another 15,500 committed, but not connected customers. These are customers who have provided deposits, or developers who put deposits in escrow, waiting to connect to our systems as new houses are being built.

This region currently has a population of 5 million people and is projected to exceed 8 million by 2050, which makes it comparable to the Dallas Fort Worth Region today. The biggest challenge for growth in this area is timely infrastructure development, especially roads, water, and wastewater systems.

We believe this area continues to provide a strong opportunity for Cal Water to partner with state, and local, and the private sector to align our utility investments to support the state's economic development in this region. So very happy with that, the growth that we've seen in PBR.

And these were Greenfield developments, that five years ago, there was nothing there, basically ranchland, where developers went in and established permitting to build large track family housing. On the Texas side, we have reached a full settlement with the Public Utilities Commission in Texas with our first rate case, and we're waiting for approval for that. We expect that to come in the fourth quarter of this year.

From a growth perspective, we're working closely with major developers to support their water and wastewater infrastructure needs and expect several new deals in Q4 of 2025, as well as when we move into 2026. To further that, we're pursuing alternative water resources to serve the growth in that area, including a private/public partnership with the Guadalupe Basin River Authority to bring water into that South Austin market through a pipeline expansion.

I'd like to move on to slide 14 to give you an update on PFAS. The EPA has reaffirmed the maximum contaminant level for PFOA and PFOS at 4 parts per trillion. And we continue to assess the standards for additional PFAS compounds. So this is really the start of the PFAS family and forever chemicals.

For those of you that have really studied it, you'll know that there's an estimated 5,000 elements out there they think that are in these PFOA and PFOS families that still have to be discovered and researched. So this is the first two, PFOA and PFOS. And the EPA has reaffirmed the target is 4 parts per trillion. The agency has proposed extending the compliance deadline for PFOA and PFOS treatments, the first two from 2029 to 2031, with a final rule expected in 2026.

States are taking varied approaches. Some, like the state of Washington as I mentioned last quarter, have adopted their own rules, which align to the prior EPA guidelines, while others continue to evaluate the local implementation timelines and the effects within their state.

From a group perspective, we are managing our PFOA and PFOS programs across the enterprise with one project team that's responsible for coordinating across the enterprise. Cal Water remains focused on delivering safe, high quality water through continued investment in treatment systems and well replacements across California, Washington, and New Mexico.

As part of this effort, certain treatment will potentially shift between the years. And as Jim talked about, our capital growth rate, and just to remind everyone, we have separated out PFAS, and it's not included in those estimates. It's included in the footnotes on that slide. So we estimate there's approximately \$217 million of PFAS investment needed between 2025 and 2029 to better align with the requirements that are coming out. Our phased adaptive approach helps ensure that we meet the compliance requirements for managing our capital deployment to minimize the impact on our customers.

Speaking of minimizing the impact on customers from a legal standpoint, we continue to make progress recovering PFAS-related costs through litigation. Cal Water is a participant in four separate class action settlements related to PFAS contamination. And Sean Bunting, our general counsel, has played a leadership role for the water industry in these proceedings.

In May of 25, we received \$10.6 million in proceedings, net of legal fees from the first 3M settlement in the first 10 scheduled installments. In addition, in September of this year, we received an additional \$24.2 million in net proceeds, bringing the total year to date net of legal fees to almost \$35 million.

This \$35 million will be a direct offset to the \$217 million that we're talking about, again, in an effort to keep rates affordable for our customers and to hold polluters accountable for the damage they've done to the water systems. We expect to begin receiving payments from the remaining settlements later this year and well into 2026. I'm now going to turn the call over to Greg Milliman for an update on the regulatory side. Greg.

**GREG
MILLIMAN:**

Thank you, Marty. Now, if you'd please turn to slide 15. I'd like to provide some additional comments on our California 2024 general rate case. Our general rate case continues to move forward. As we mentioned last quarter, hearings before the administrative law judge occurred in May. After the hearings, the ALJ requested additional information that the parties to the proceeding responded to in June.

We then filed our briefs on July 7 and our reply briefs were filed on July 28. A final law and motion hearing was scheduled for August 5, at which point the case was turned over to the ALJ to draft a proposed decision. As Marty mentioned, in October, the ALJ requested more time due to the complexity and size of the case.

Excuse me. At the same time, in the event of a decision delayed beyond January 1, 2026, he authorized the company to implement an interim rate increase effective January 1, 2026, tied to CPI. He also approved an interim rate memorandum account to capture lost revenues resulting from a decision delay.

While we are disappointed with the prospect of a delayed decision, we are pleased with the ALJ's action to allow an interim rate increase, and the lost revenue tracking account, and are still confident that we will see a resolution in the near term. Turning to slide 16, we have other regulatory updates in the other states where we operate.

In Hawaii, the public utility commission approved a \$4.7 million revenue increase for Hawaii Waters' five Waikoloa systems, effective October 9, 2025. In Washington State, Washington Water filed a rate case with the Washington Utilities and Transportation Commission seeking a 4.9 million revenue increase to recover system investments and higher operating costs. The utility also has completed key infrastructure aimed at enhancing reliability and water quality. The proposed effective date of these new rates would be December 15, 2025.

And finally, as Marty mentioned, in Texas, our DVRT utility filed a rate case in June 2024 with the public utility commission of Texas covering five systems. During the second quarter of 2025, DVRT reached a settlement with consumer advocates, and the public utility commission of Texas approval is currently pending. With that, I will now turn the call back over to you, Marty.

MARTY
KROPELNICKI: Hey, Greg, can you just comment the communications of the commission this rate case cycle versus the last rate case cycle in California. From my perspective, it's been really different, a huge improvement in terms of transparency and communication with the commissioner and judges. Can you please just give them your perspective on that as well?

GREG
MILLIMAN: Yes, absolutely. Actually, since we had the October three update from the ALJ, we've spoken with the commissioner four times during that time frame at various meetings and events. And all four times, he's commented that he would like to see this decision moved out on a timely basis. We never had that in the 2021 case. And so I think that's why we're optimistic that even if the case is delayed a little bit, we will be seeing something much sooner in this 2024 case.

MARTY
KROPELNICKI: Yeah, it's great seeing the commissioner. It was really the assigned hearing officer was really the commissioner so involved in the rate case and really sticking to it, as well as the communications from the judge, I think, have been-- I would almost call them outstanding. I don't want to get too far ahead of our skis. But I mean, the proactiveness on both the judge and the commissioner, I think, have been really different than what we've experienced before.

GREG
MILLIMAN: Absolutely.

MARTY
KROPELNICKI: Thanks, Greg. Before I close out, I want to take a moment to reflect on what we achieved so far this year. Despite operating in the third and most challenging area of our rate case in California, we've delivered solid financial performance and operational performance.

We've continued to strengthen our balance sheet with a \$370 million in long-term financing that Jim and his team concluded in the third quarter. And we continue to invest heavily in sustainability, and reliability, and the quality of our water systems with the \$365 million invested in the nine months year to date for 2025.

We've also continued to make meaningful progress on PFAS treatment in the recovery of the \$35 million in net settlement proceeds received year to date. Again, the PFAS treatments will continue to call those out separate from our normal capital program. So you can clearly see what the net impact is to our customers, as well to rate base and any offset on the recoveries that we have.

As Greg said, we've been busy on the regulatory side, making meaningful progress in Hawaii, as well as Washington and Texas as we stay laser focused on getting our 2021 rate case done-- no, 23 rate case done for California. 24. As we look ahead to 2025, a couple of things I think are important.

On October 14 of this year, we celebrate our 99th anniversary since our founding in 1926. Some of you have heard me talk about this. We were founded by three World War I veterans who came back from the war, who had a profound sense of service not only to their country, but to customers, communities, and to stockholders.

As we move into 2026, which will be our 100th year, our Centennial year of operations, our priorities really haven't changed. It's maintaining operational excellence, executing our capital programs responsibly, and achieving timely outcomes in our rate cases, and continue to deliver value for both our customers and our stockholders.

With our disciplined financial approach, constructive regulatory relations, and our commitment to sustainable and reliable growth, we're confident that California Water Service Group is well-positioned as we move into our 100th year of operations, which we look forward to celebrating next year. So, Dustin, with that, I'm going to turn it over to you, and we'll start the Q&A, please.

DUSTIN: Thank you. Before we open the floor for questions, if you'd like to ask a question, again, please press star 1 on your telephone keypad to raise your hand and enter the queue. If you'd like to withdraw your question or your question has been answered, simply press star 1 again. Thank you. And our first question comes from the line of Angie Storozyński from Seaport. The line is open.

ANGIE STOROZYNSKI: Thank you. Thank you. So my main question is about your rate base growth projections, Anderson, that those are-- I don't even see even the number. Again, the rate base growth implying 11.7% That's based on a filed GRC rate case. Now you have a partial settlement in this rate case, which seems to take down CapEx projections. And I know that there's PFAS spending that could be additive here. But as we sit today, how much of a drag do I have on those projections for rate base versus what you're showing in that slide, in slide 10?

JAMES P. LYNCH: So, Angie, thanks for the question. So right now, we don't have a partial settlement in California, which is the largest driver of our capital expenditures. We are building in anticipation of achieving most of what we have asked for in the rate case. As you know 2025 is the first year of the 26 rate case, just because of the wonkiness in California and the way that they line their capital requirements up with the rate case delivery.

So at this point, the settlement that we did talk about was the one in Texas, which we're really pleased on, and we're waiting for regulatory approval there on that particular rate case. We still feel committed to the projections that we've provided in the slide. We think that we have made a good case in California to get the majority, if not all, of what we have asked for, recognizing the fact that, historically, there's a discount that we receive from the commission as we go through the remaining portions of the rate case to get to the final decision. I don't, Marty, if you want to--

MARTY Yeah, I think Angie's question-- so if you look at the forecasted growth, those three years out, they're boxed and
KROPELNICKI: they say, this is what we filed for. And as Greg always reminds me, we never get 100% of what we ask for in the rate case process. Having said that, if you go back and look at the last 10 to 15-year average, we typically average about a 10% compound annual growth rate on our capital spending year over year, which ultimately flows into the rate base.

So for planning purposes, Angie, probably around 10% is probably a decent number to use, excluding the PFAS. And Jim has been very careful on all the slides that we put out there to footnote what our estimates are. And those estimates are still evolving, but they're obviously getting more firmed up every time we go into another quarter, because the engineers are doing more and more work on the treatment that we need to provide. But that will be incremental rate-based growth net in illegal proceeds.

And that's also why we'll update everyone every quarter on what we've recovered on the legal side. So right now, you could take that 217 less than 35 million, that would be the net rate-based estimate as of right now when we have to be in full PFAS compliance. But I expect we'll get some more legal proceeds to come in to help bring that number down.

ANGIE I understand PFAS component that seems relatively small vis a vis what's actually in the GRC. But I'm looking at
STOROZYNSKI: the August filing, the undisputed parts with the California advocates. Even based on that, there is actually a more than this reduction to that rate-based projection versus what you're guiding to.

Again, it seems like it's actually pretty substantial. It's almost like a 20% reduction versus what you are projecting in the rate base-- again, just a rough math. No. And again, I understand that this is just a portion of the settlement. But there was a filing August 4 now. I mean, I'm looking at it right now.

GREG Angie, what that would be is it's a listing of undisputed items that, per the commission, we needed to file it as a
MILLIMAN: settlement. And most likely what you're looking in there, you're seeing what Cal Water proposed contrasted to what the public advocate's proposed. Those are not settlement numbers of capital. That's just the party's positions. And it needed to be attached to the document.

MARTY Yeah, in fact, I think the judge asked the parties to do that, to help him expedite doing his legal review to make
KROPELNICKI: his conclusion finding the facts, comparing the two parties. So he lined everything up. And this is just one of the areas that he lined up, what we asked for versus what the advocates are saying.

GREG Correct.
MILLIMAN:

MARTY Yeah.
KROPELNICKI:

ANGIE OK, the hope is that the judge doesn't adopt the Cal advocates position, basically?

STOROZYNSKI:

GREG Correct.

MILLIMAN:

MARTY Yes. Yeah, I think, Angie, if you go back and look at the last three rate cases, the thing I look at is how successful

KROPELNICKI: have we been in the last three rate cases. And, Greg, I think we've been north of 80% of our ask, as high as 90% of our ask over the last three cycles.

GREG Correct.

MILLIMAN:

MARTY Yeah.

KROPELNICKI:

ANGIE OK, OK, I understand. Yeah, OK, I'm going to actually look at the 2021 rate case, how it compared to the position

STOROZYNSKI: of advocates. It's just that the way I look at it is that you're overstating the rate base growth, again, at this stage of the rate case proceeding. And I'm rooting for you. It's just that I'm looking at the current status of the proceeding, and it doesn't seem like you can get close to these numbers. OK, so

MARTY Angie, let me correct something you said. We haven't overstated anything. That is a really bad word as a public

KROPELNICKI: company. Again, what we put into disclosures is what was asked for in the rate case. And that's why we've carefully footnoted it so people can clearly see it.

Our typical growth rate is about 10% on the CapEx line year over year over the long haul. And obviously, those numbers will change. I'm a little cautious when you say what you said because the disclosures are pretty clear. And it's also that way in the 10-Q and 10-K.

JAMES P. LYNCH: And, Angie, I just would encourage you to give me a call if you take a look at the 2021 rate case, because the way the actual capital delivery number was in that rate case was divided between what was allowed in the rate case and subsequently allowed through advice letter filings. And it's differentiated in there. Our view is to take a look at what was allowed through both avenues in order to evaluate how successful we were in our capital ask.

ANGIE OK, will do. Thank you.

STOROZYNSKI:

JAMES P. LYNCH: Thanks, Angie.

DUSTIN: Thank you. Again, if you'd like to ask a question, please press star and the number 1 on your telephone keypad. And our next question comes from the line of Davis Sunderland from Baird. The line is open.

DAVIS SUNDERLAND: Thank you, operator. And good morning, guys. As you said, happy fall, Marty. I appreciate the time.

MARTY Good morning.

KROPELNICKI:

DAVIS I should give credit to Angie for this question, who asked a similar question on the H2O call earlier this week. So

SUNDERLAND: I'm going to steal and just modify a little bit. But I guess my first question is just obviously big news earlier this week with American and essential in the merger, which will bring American into the State of Texas. And I guess my question is, does this change how you guys think about growth, or willingness to lean into this market, or the opportunity there? And then I have one follow-up.

MARTY Yeah, I think our stated position on M&A and growth is really the same. Obviously, from a planning standpoint,

KROPELNICKI: we've been very happy with our organic rate base growth because it's been north of 10% for the last 15 to 20 years. So we're clearly focused on executing our business plans internally. Our primary growth engine is that reinvestment in our existing infrastructure.

Being a West Coast utility, a lot of our infrastructure was built out post World War II, and it's now coming to the end of its useful life. So we think we're going to be busy just with replacing infrastructure on the West Coast for a foreseeable future. And we don't see that piece of the business slowing down anytime soon.

From a growth perspective, we think our investment in DVRT has proven to be very, very valuable in terms of being in the right market real estate. It's about location, location, location. And that is such a rapidly growing corridor. So we now own 7 utilities in that area. We have the partnership with GBRA to bring water in for another 10,000 customers in the South Austin market. So we'll continue to build out that market.

And then from an M&A perspective, it's about being opportunistic. I think American and Essential, we know them really well. They're great companies. I'm sure they had their reasons for why they ended up merging. I'm sure those will be in their proxy agreements when they put those out. And so I think there's a lot of reasons why the overlap service territories or an East Coast-based utility.

I think Essential has been more in Texas, and not as much American. So I think with Chris Franklin being in charge of the integration work, that we'll be evaluating all of that, and what their footprint is going to look like. So I think there'll be more to come on that. For us, obviously, we're Western states-focused, from Texas, all the way to Hawaii. And we're going to stay focused on our business plan as it's developed.

DAVIS That is super helpful. Thank you for that. And then maybe just one more from me. We've obviously been in this

SUNDERLAND: higher for longer rate environment for a lot longer than many expected, myself included. And some hawkish comments yesterday from Powell, and potentially a lesser likelihood, I'll say, of rates coming down quickly. I'm just wondering how you guys build this into your guys' planning for the rest of the year, looking into 2026? And any other thoughts on that? Thank you.

MARTY No, that's a really good question, Davis. And look, I'm really happy with our financial results this quarter. Because

KROPELNICKI: if you lay out the timing of the rate case, all the inflation we saw in the last three years, we've really absorbed in the P&L, and we've been able to still grow the company. So getting the rate case done down in California is going to be really important because that trues up our costs, including that inflationary bubble that we lived in.

A couple of things that I think are important, especially given California is our largest operating entity, is we do have that cost of capital adjustment mechanism. That's a two-way mechanism. So as rates move up and down annually, we get to evaluate that and we can apply for changes using that mechanism, which I think is a very beneficial mechanism that a lot of people tend to overlook.

So I think for us, we like to focus on earning our regulatory rate of return. As an economist, my team knows I keep a keen eye on interest rates and what's happening in the economy. And we try to stay a step ahead of what's happening. And so we've been able to preserve the balance sheet, continue to grow rate base, continue to grow earnings. Despite some of the economic headwinds, we've really had the last three years or four years.

And really, what will be nice about the next rate case in California, assuming rates start to stabilize a little bit more, is the inflationary bubble that we've had to absorb will be behind us. But again, I'm not so much worried about the bubble because we do have that cost of capital adjustment mechanism in California. And that is our largest operating entity. Now, Greg, if you want to add anything, or, Jim, add anything on that.

JAMES P. LYNCH: Yeah, I would only say, David, we did talk a little bit about the fact that we refinanced our short-term debt into long-term debt. I think we got some really favorable rates on that long-term debt. And we basically took almost \$355 million off of the lines of credit and moved that into the longer-term interest rate environment, if you will. So I think we're positioned very well right now in terms of moving forward. I don't think that if the fed slows down significantly in terms of bringing the short-term rates down, that it would give us any cause to change our current plans.

MARTY KROPELNICKI: Yeah, I think one of the challenges for the fed is most people forget about the fact that the fed is very quant-based. They look at numbers. Well, if the government shut down, they have a limited data set that they're evaluating off of. And I think while it wasn't too bad for them for the meeting yesterday, the longer this government shutdown goes on, the more absentee data they won't have to look at as they do their evaluations. And again, if anyone's ever gone to any of the regional quarterly fed meetings, they are very, very quant-focused.

And obviously, the big thing I think they were focused on yesterday, I haven't read the minutes of the meeting, but I would speculate, is that you're seeing a rapid softening of labor. And I think that was the key component that the feds were looking at. And certainly, we're seeing that right now.

DAVIS SUNDERLAND: This is all super helpful. I appreciate the time, guys. Thank you very much. And best of luck with the rate case the rest of the year.

MARTY KROPELNICKI: Thanks, David. And we'll see you in a few weeks at the Baird Industrial Conference in Chicago. We look forward to seeing you.

DAVIS SUNDERLAND: I'm looking forward to it.

MARTY KROPELNICKI: Thank you.

DUSTIN: Thank you. There are no further questions. I will now turn the call back over to our chairman, president, and CEO, Marty Kropelnicki, for closing remarks.

MARTY Thanks, Davis. That was a good, robust discussion today. Obviously, if anyone has any questions, feel free to

KROPELNICKI: reach out to us. There's a lot of investor stuff happening in the fourth quarter. So Jim and I will be on the road quite a bit, Chicago, New York, et cetera. So please reach out if you have questions. And we look forward to reporting our year end results to everyone in February of 2026. So have a great Thanksgiving and a happy holiday. Be safe. And we'll talk to everyone really soon. Thank you.

DUSTIN: The meeting is now concluded. Thank you all for joining. You may now disconnect.