KATHLEEN: Thank you for standing by. My name is Kathleen and I will be your conference operator today. At this time, I would like to welcome everyone to the California Water Service Group Third Quarter 2024 earnings call. All lines have been placed on mute to prevent any background noise. After the speakers remarks, there will be a question and answer session.

If you would like to ask a question during this time, simply press Star followed by the Number 1 on your telephone keypad. And if you would like to withdraw your question, just press the Star 1 again. Thank you. And now, I would like to turn the call over to Jim Lynch, senior vice president, chief financial officer please go ahead, sir.

JAMES LYNCH: Thank you, Kathleen. Welcome, everyone, to our third quarter 2024 results call for California Water Service Group. With me today is Marty Kropelnicki, our chairman and CEO, and Greg Milleman, 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 replay will be available until December 30, 2024. As a reminder, before we begin, the company has a slide deck to accompany today's earnings call. The slide deck was furnished with an 8-K and is also available at the company's website at www.calwatergroup.com.

Before looking at third quarter 2024 results, I'd like to take a few moments to address forward-looking statements. During the course of the call, the company 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, the company strongly advises all current shareholders, as well as interested parties, to carefully read and understand the company's disclosures on risks and uncertainties found in our Form 10-K, Form 10-Qs, press releases, and other reports filed from time to time with the Securities and Exchange Commission. And now I'll turn the call over to Marty.

MARTIN KROPELNICKI: Thanks, Jim. Good morning, everyone, and Happy Halloween. We're happy you can join us here today. We're very pleased to share with you our results for the third quarter of 2024. There's really 5 main topics that we want to cover today.

The first one being our strong third quarter financial performance that continues to benefit from the regulatory relief and the state of California. We want to give you an update on the 2024 general rate case, where during the quarter, we had our initial pre-conference hearing, and we've been assigned an administrative law judge and a commissioner to oversee our case.

We received approval of certain advice letters from the California Public Utilities Commission that's going to allow us to collect $94.2 million in certain regulatory balances through 2027. We want to talk about the record amount of capital that we've invested this year, and what that looks like going into year-end. And then lastly, take a moment to talk about our continued environmental leadership and corporate recognition, and talk about a few awards that we won during the quarter.

But to start things off, let's do like we typically do and have Jim Lynch take you through some of the financial analysis that highlights the quarterly results. Jim, back to you.

JAMES LYNCH: Thanks, Marty. So as Marty mentioned, our Q3 2024 financial results continued to benefit from new rates and the rate structure authorized in our 2021 California GRC. As a result, our operating revenue for the quarter increased 17.5% to $299.6 million compared to our prior year Q3 operating revenue of $255 million.

Net income for the quarter was $60.7 million, or $1.03 per diluted share, compared to $34.4 million, or $0.60 per diluted share, in Q3 of 2023. The $44.6 million increase in Q3 2024 revenue was driven primarily by a $42.2 million increase in rates billed to customers as authorized in our regulatory filings, and an increase in customer usage, including usage by new customers of $9.6 million.

These increases were offset by a $9.4 million reduction in our Monterey water rate adjustment mechanism, or our MRAM. Recall that the MRAM is a rate adjustment mechanism that includes a tiered rate structure tied to usage. In periods of warm, dry weather when usage increases, the MRAM typically decreases. The balance typically increases in cooler wet weather when usage declines.

Q3 2024 operating expenses were $232.8 million compared to Q3 2023 operating expenses of $211.5 million. The $21 million increase was primarily driven by $2.7 million in higher water production costs, due to an increase in wholesale rates and higher customer usage, a $3.2 million increase in depreciation and amortization due to new assets placed in service, and $11.5 million in higher income taxes related to higher pre-tax earnings.

In addition, net other income increased $3.8 million during the third quarter, primarily due to an increase in unrealized gains on non-qualified benefit plan investments of $5 million. The impact of the Q3 2024 activity on diluted earnings per share is presented on slide 6. The more significant growth drivers were rate and usage increases of $0.56 and $0.13 per diluted share, respectively.

In addition, gains on non-qualified benefit plan investments contributed $0.09 per diluted share. These drivers were partially offset by the change in MRAM balance of $0.12 per diluted share and increases in water production expenses and depreciation and amortization expenses of $0.04 per diluted share, respectively.

Year-to-date 2024 results benefited from the same regulatory mechanisms as the quarterly results. Year-to-date operating revenue increased $234.5 million to $814.6 million in 2024, compared to $580 million year-to-date in 2023. Year-to-date 2024 net income was $171.1 million, or $2.93 per diluted share, compared to year-to-date net income in 2023 of $21 million, or $0.38 per diluted share.

The growth in revenue was primarily driven by cumulative rate increases, including 2024 RMA of $95 million, 2023 interim rate relief from the 2021 GRC of $87.5 million, and the recognition of deferred RAM revenue of $15.6 million. In addition, the change in our 2024 MRAM balance added $12.4 million, and increased usage contributed $8.8 million.

Year-to-date 2024 operating expenses were $621.8 million compared to year-to-date 2023 operating expenses of $538.2 million. The $83.6 million increase was primarily driven by an increase in water production costs of $15.4 million due to increases in wholesale water rates and higher usage. Water production costs increased an additional $3.3 million due to the incremental cost balancing account, or ICBA, that was authorized in the 2021 GRC.

We also recognized $13.1 million in deferred costs associated with the recognition of deferred RAM revenue and higher depreciation and amortization expense of $9.3 million. Also, year-to-date income tax increased $41.1 million, primarily due to higher pre-tax earnings.

The impact of year-to-date 2024 activity on diluted earnings per share is presented on slide 8. The more significant earnings drivers include cumulative rate increases, the 2023 interim rate relief, and recognized deferred RAM revenue of $1.29, $1.19, and $0.21 diluted earnings per share, respectively. The change in our 2024 MRAM balance and increased usage added another $0.17 and $0.12 diluted earnings per share, respectively.

These increases were partially offset by higher water production expenses and the recognition of RAM-related deferred water expenses of $0.25 and $0.18 diluted earnings per share, respectively, and higher depreciation and amortization of $0.13 diluted earnings per share.

As a reminder, our 2021 GRC was adopted in Q1 of 2024, and included 2023 interim rate relief totaling $64 million. $15.2 million of the interim rate relief was attributed to Q3 2023, and $50.4 million would have been attributable to the 2023 9-month period year-to-date.

Turning to our capital, we continue to make significant investments in our water infrastructure to help ensure the delivery of safe and reliable water service. Company capital investments during the 9-month period ended September 30, 2024, totaled $332.2 million, which is 86% of our $385 million 2024 capital budget.

As a reminder, our planned 2024 capital investments and our estimated capital investments for the period from 2025 through 2027 do not include $226 million of estimated PFOS projects that will be constructed over multiple years, beginning in the fourth quarter of 2024. Greg will discuss plan 2025 and 2027 increases applied for in the 2024 GRC and infrastructure improvement plan later on in the call.

The positive impact of our capital investment program is having on regulated rate base is presented on slide number 10. Our overall rate base is projected to grow to $2.36 billion by the end of 2024. This is an increase of 7.3% over 2023. If approved as requested, the 2024 California GRC and infrastructure improvement plan, coupled with planned capital investments in our utilities and other states, would result in a compounded annual rate base growth of 11.7%

Moving to slide 11, we continue to maintain a strong balance sheet with a capital structure of 61% equity and 39% debt. During the quarter, the CPUC issued a final decision granting Cal Water Authority to issue up to $1.3 billion in new debt and equity securities to finance water system infrastructure investments from 2023 to 2027.

We raised approximately $34.5 million during the quarter from the sale of 639,000 shares of common stock under our at-the-market or our ATM stock equity program. Year-to-date, we've raised approximately $86.5 million from the sales of 1.6 million, 390,000 shares, under the ATM program. We have approximately $43.1 million remaining under the program that can be raised for general corporate purposes in the future, including planned capital investments and strategic opportunities.

On the debt side, Cal Water completed the sale and issuance of $125 million of first mortgage bonds, the bonds in a private placement that closed on October 22, 2024. The bonds bear interest at a rate of 5.22% and mature on October 22, 2054. Cal Water used the bond proceeds to refinance certain existing borrowings on its short-term bank line of credit.

And just a note, yesterday our board of directors declared a $0.28 per share dividend for stockholders of record on November 11, 2024. I believe that's November 12th of 2024. This is our 319th consecutive quarterly dividend.

Moving to slide 12, we continue to maintain a strong liquidity position. As of September 30, 2024, the company had cash and cash equivalents of $105.2 million, of which $45.6 million was classified as restricted. Further, we had additional short-term borrowing capacity on our company and Cal Water lines have credit of $340 million. With that, I'll turn the call over to Greg to give an update on our 2024 general rate case and other regulatory matters. Greg?

GREG MILLEMAN: Thanks, Jim. On slide 13, we discussed the 2024 general rate case. I'm pleased to report that we continue to make progress with our 2024 general rate case filing. We've completed the initial prehearing conference, and a judge and commissioner have been assigned to our case.

The assigned commissioner to the case is Commissioner Baker. We are pleased with this assignment, given his past work at the California Public Advocates to educate the CPUC on the negative customer impacts associated with rate case delays.

As Jim mentioned earlier, we're proposing to invest $1.6 billion in our districts from 2025 to 2027, including approximately $1.3 billion of newly proposed capital investments to continue providing reliable, high quality water service. This application includes our innovative low-use water equity program, designed to be coupled revenue from water sales while keeping rates affordable and reinforcing conservation goals.

Our proposal includes rate increases to generate an additional 140.6 million for 2026, 74.2 million for 2027, and 83.6 million for 2028. We are now four months into the standard 18-month review process with the PUC, and are actively responding to data requests. We've completed all our district tours and are preparing for public participation hearings later in the year. With that, I'll turn the call back to Marty.

MARTIN KROPELNICKI: Greg, just out of curiosity. The volume of data requests kind of are consistent with past rate cases?

GREG MILLEMAN: Yes, it's consistent with past rate cases.

MARTIN KROPELNICKI: OK. Greg, thank you. Moving ahead. I'm on slide 14. I want to take a moment to talk about our cost of capital for 2025. As many of you know, we have, in California, what's called a cost of capital adjustment mechanism. Cost of capital adjustment mechanism basically tracks the utility's AA utility bond index from October 1 to September 30, the following year.

In the event there's 100 basis point change or greater, the company can make apply for an adjustment to its ROE, both up and down. So I'm very happy to report that the period ended September 30, it was less than 100 basis point change, and therefore it locks in our ROE for 2025 at 10.27%, which we think is a very good Roe.

Moving on to the next slide. Other regulatory mechanisms. There's a few things that happened in the quarter that I think are important. As I mentioned in my opening comments, we filed a number of advice letters for recovery that have been approved by the CPUC here in California.

There's three primarily filings that I want to emphasize. One is the Irma, which is the incremental rates memo account. The 2023 MRM balance and the 2023 incremental cost balance in account. The combination of those three things total approximately $94.2 million that we will be collecting over the next three years. For 2024, we expect to collect about $11.6 million from these balances as we move into the new year.

Going on to slide number 16, I want to take a moment to talk about our environmental leadership and corporate recognition. First of all, I continue to be very proud of the recognition we received for our environmental stewardship and our workplace excellence.

The Alliance for Water Efficiency recently published a study that highlighted the important impact of our conservation programs, which have reduced customer bills by approximately 21% over the last 15 years, compared to projections with customers that did not have the same type of conservation program. So we're very happy with the results of the survey and what we've helped our customers achieve over the last 15 years.

In addition, the US Environmental Protection Agency awarded California Water Service the WaterSense Excellence Award for the second consecutive year. This recognizes the promotion of our water-efficient products that we have in our conservation programs. The products that we've implemented to date will save an additional 395 million gallons over the life of the devices useful life for our customers.

Additionally, during the quarter, we were named one of the world's most trustworthy companies by *Newsweek* for its second consecutive year. This places us among only five water utilities that are recognized and honored in the energy and utility category. And then lastly, for the ninth consecutive year, we were recognized as a great place to work, reflecting our ongoing commitment to create an exceptional workplace environment and supporting our employees.

I think, as many of you have probably heard me say, that yes, we are a company of fixed assets, pipes and pumps, but our most important assets are our employees because they're the ones that make it all happen and they're the ones that interface with our customers.

Lastly, I want to take a moment to mention a case that we filed during the quarter that announced the retirement of Ron Webb, who is our vice president and chief human resource officer. Ron will be retiring on April 1, 2025. Ron has done an excellent job as our head of HR and has been an outstanding HR, colleague, and friend who has made countless contributions here at Cal Water.

I want to take a moment to personally thank Ron and wish him all the best as him and his wife, Tina, prepare for retirement. And he will be dearly, dearly missed. I think as everyone can appreciate, as the CEO, one of your closest confidants is your HR executive. And Ron, it's been just a fantastic 10 years working with you, and I'm going to miss working with you, and wish you all the best in retirement.

Having said that, we have started a national search for Ron's replacement, and I hope to be in a position to announce his replacement by year-end or early 2025.

So where does that take us for the quarter? Very happy with the results for the quarter. Results were in line with our expectations. They are a little bit confusing. I think Jim did a good job laying out all the moving parts and how they fit together given the delay 2021 general rate case.

Moving forward, it's really simple. The strategy is focused on getting the capital in the ground as in the press release. And as Jim mentioned, we've invested a record amount of capital this year. So we're going into the fourth quarter very strong in doing investments in our infrastructure improvement plan. We want to stay focused on customer service and servicing our customers and then also on the 2024 general rate case.

As Greg said, so far, things are moving and tracking to plan. And we want to make sure we do everything we can to make sure that we conclude that rate case by the end of 2025, with new rates in effect 1/1/26.

So there's a lot going on. The other thing I'd just point out is, as Jim said on the rate base growth side, we've historically been about three times the depreciation rate, investment rate. And that's bumping up in this next cycle or two. And it's given the growth of the internal capital needs of the existing infrastructure, plus the incremental 226 million that's not reflected in that 11.7% cargo number on rate base growth. That will be incremental.

So overall, we have a lot of stuff happening within the company. The strategy is really straightforward. We're going to stick to what we do, which is getting the capital in the ground and serving the customers. And I guess one thing I just wrap up before we open up the comments is just fire season. This year, surprisingly, our service areas has been relatively light.

We had three major fires this year that were close to our service areas, none of which did damage to our service areas. We had the Thompson Fire, the Park Fire, and the Boreal Fire, so nothing major that affected our service territory. I'm very happy to report that we are getting the first snowfall this week in the Sierras, which is a good sign that winter is off to a start and will help bring down the last few weeks of fire season that we have here, which typically goes on until the end of November. So with that, Kathleen, we will open it up for questions, please.

KATHLEEN: Thank you. We will now begin the question and answer session. If you have dialed in and would like to ask a question, please press Star 1 on your telephone keypad to raise your hand and join the queue. And if you would like to withdraw your question, just simply press Star 1 again.

If you are called upon to ask a question and listening via loudspeaker on your device, please pick up your handset and ensure that your phone is not on mute when asking your question. Again, please press Star 1 to join the queue. And your first question comes from the line of Jonathan Reeder of Wells Fargo. Your line is now open.

JONATHAN REEDER: Hey, good morning team. How are you all today?

MARTY KROPELNICKI: Morning, Jonathan.

GREG MILLEMAN: Morning, Jonathan

JONATHAN REEDER: Wanted to start out just to get your view on the CPUC's recent decision to hold the PD and Cal Am's rate case. I know the PD's language was pretty strongly against restoring full decoupling. But do you think there are enough commissioners that are supportive of decoupling, or might we just see some of the rationale and language in that section revised?

GREG MILLEMAN: Jonathan, this is Greg. And the kind of feeling of the industry right now is, it was a strong sign that the PD was held until almost a little over a month, maybe two months, to the December meeting. But there is not a consensus on exactly what that could mean. That could potentially mean they are tightening up the language around disallowing it or going the other way. And putting in the language that would allow it. It's just too soon to tell.

JONATHAN REEDER: OK. Fair enough. I can't tell either.

MARTIN KROPELNICKI: Jonathan, one thing I would add to that, and I haven't read the full decoupling application for any of our peer companies in California. But I do know in our application, we were keenly focused on two things that I think are important. And I think this may be a strategy differential for us. One, we were very focused on conservation as we originally were when we originally decoupled back in the early 2012, I guess, we sort of coupled. That was number one.

The other thing we focused on in our new rate design in our application was kind of underserved communities, and having a rate design that helps low-income customers with a lifeline rate, that first tier. So in our application, it wasn't just about conservation, it was also about low-income communities and making sure there's a lifeline rate there that reduces customers on the lower term of the economic-- or the lower range of the economic spectrum. And we think that's going to be a really, really important.

JONATHAN REEDER: Yeah, no. And that's where I think if it is even just softening the language in that PD, it kind of then opens the door to write some of these re-imagined ways of, I guess, designing the decoupling, where it really focuses on some of the goals you just mentioned, Marty.

MARTIN KROPELNICKI: Right. And I think what's important about this community piece for the people on the lower economic scale is that's a stated goal of the commission. They made that very public and something they're very interested in. And I give the team here a lot of credit. We took that to heart in the design of our decoupling mechanism that we filed for in our rate case.

JONATHAN REEDER: OK, great. Now, look forward to that to see how that plays out. Also, I know the CPUC recently issued a decision, lowering the energy and utilities allowed were raised by 42 basis points in 2025 by effectively reducing the magnitude of the 2024 cost of capital mechanism increase. Is there any avenue for the CPUC to do something similar for the waters for 2025?

MARTIN KROPELNICKI: I'll go first, Greg, and you can add comment. I mean, I think that's always a possibility. Our ROEs have historically lagged the energy industry. So we're not coming off real high ROEs. In fact, I think our ROE at 10.27 is about where it was when I joined the company back in 2006. And then it went down for a number of years and recently went back up above 10 just recently. So I think that's a possibility.

I think there's a number of factors going on in the electric industry. It's a little different than water. One, as you see, we have a growing appetite to get capital in the ground. And we have to step it up, getting that capital on the ground just to keep up with our current demands that we have in the existing rate case, which is great for stockholders. That means we're growing rate base and potentially future earnings for customers.

I think the other thing, though, on the electric side is in California, you have a lot of wildfire costs that are being recovered in electrical rates, which have put multiple layers of rate increases on customers. And I think there may be some pressure on the commission and just political pressure overall in California, given some of the incremental increases that were outside the general rate case that were added to electric bills.

So I don't think we know until we get there. But I think for us, we will most likely have to file a cost of capital application in 2025. It'd be great if we can defer it again, but I think that might be hard to do. And we'll do our best to defend the company's position on its ROE. Greg, anything you want to add on that?

GREG MILLEMAN: The only thing else I would add is the, unlike the water companies, the energies have an option to file an application to change their cost of capital in between their scheduled time. And they did that, I believe, in 2022. If there's an emergency, which was COVID. And so I think that might also lead to why there's different treatment on the cost of capital between the two of us, energies as well, and water.

MARTIN KROPELNICKI: So obviously, Jonathan, this will be a hot topic for '25. And we'll provide updates on our cost of capital as we go through the process with the commission in 2025.

JAMES LYNCH: Yeah, I think the takeaway, at least in the near term, is that for 2025, we have the 10.27%, as Marty mentioned, in terms of the recalculation this year at September 30, we didn't trigger any kind of movement from what we are currently experiencing in our ROE.

MARTIN KROPELNICKI: No, and I think we haven't had any pushback from the commission about 15.27. Have we, Greg?

GREG MILLEMAN: No, we made a filing to demonstrate just what Jim said and haven't heard back from them.

JONATHAN REEDER: OK. So good. So it sounds like the two point, or the 10.27 is safe for 2025. And then, yeah, we'll just see if there's-- I guess, would you be open to an extension that maybe include some sort of adjustment to the ROE if maybe in exchange you get some sort of multi-year certainty extension in whatever that new ROE would be?

MARTIN KROPELNICKI: It's hard to speculate on something like that on the future. I will say, I have been a big supporter of the cost of capital adjustment mechanism because it does float up and down, and it's a two-way mechanism. And again, our ROEs have lagged the electric industry. And we have a growing need to increase our capital investment.

So I think obviously, we'd love to settle anything if we can because it's just a cleaner process if we can do it. But it's really hard to speculate because we don't have any facts and circumstances around it. And, obviously, what we want to do is what's right for Cal Water, which is make sure we have an ROE that's appropriate enough that allows us to attract capital to allow us to continue our rate base growth.

So I think we'll have a lot more certainty on it as we get into it. But it's really hard to speculate not being in a dialogue with the Commission about it.

JONATHAN REEDER: Sure. And then last on the cost of capital. Slide 11 kind of indicates your authorized California capital structure, 60.8% equity. How does that reconcile with the 53.4% approved under the last cost of capital? Is a little confusing.

MARTIN KROPELNICKI: No, that's our actual cap structure as of right now. And Jim, can you talk a little bit about that?

JAMES LYNCH: Yeah. And again, Jonathan, that's at group. So we are working to manage that structure to mirror as close as possible or authorized amounts in our operating utilities. I mentioned on the call subsequent to the quarter-end, we did a first mortgage bond in which we raised $125 million in debt financing. So we're starting to balance the debt and the equity.

And really, to get it more in line with what our authorized amount is at the operating utilities to get that more in line with what we've got at group. And we'll work through the capital structure at group to take the most optimal path to get that closer in line. But the first step was this 125 million that we issued subsequent to quarter-end.

JONATHAN REEDER: OK, great. I appreciate that clarity. And then last question for me, what are the potential impacts on the CapEx budget from the EPA's recently finalized lead and copper rule? Is that a major issue for your California service area?

MARTIN KROPELNICKI: It's really not. I mean, frankly, one of the nice things about being out on the West Coast is our infrastructure is newer than the East Coast. So based on what we've seen in all of our updated testing, we have one district that has hit that action level. But as we went into the testing in that district, our wells and our purchase water is fine. We think it's more associated with a couple customers' homes.

So I don't think it's that big of an impact for us, which frankly, is nice because PFOS is the big kahuna for us the next 20-- the next 3 years, because that's an incremental 226 million we got to invest and we want to be ahead of schedule on that. So I'm not losing too much sleep on the lead and copper rule being out West.

JONATHAN REEDER: OK, great. No, I appreciate the additional detail. And thanks for the updates.

MARTIN KROPELNICKI: Thanks, Jonathan.

KATHLEEN: Again, if you would like to ask a question, please press Star 1 on your telephone keypad. There are no questions at this time. I will now turn the conference back over to Martin Kropelnicki, chairman and CEO, for closing remarks.

MARTIN KROPELNICKI: Kathleen, thank you. Thanks for everyone for joining today. Please, if you have questions, feel free to reach out to one of us, and we'll answer them the best that we can. Just closing, we know we're close to the third quarter strong. We're going into the fourth quarter with a lot of momentum.

But again, the overall goal going into the fourth quarter is just stay focused on the core business plan of the company and executing our existing strategy. And we'll look forward to giving everyone an update at the end of February when we announce our earnings results for 2024. So Happy Halloween. Be safe and we'll talk to everyone soon. Thank you.

KATHLEEN: Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.