

# California Water Service Group 1Q26 Earnings Call

[00:00:00.40] DEMI: Ladies and gentleman, thank you for standing by. At this time, I would like to welcome everyone to the California Water Service Group First quarter 2020 earnings call. All lines have been placed on mute to prevent any background noise.

[00:00:14.04] 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. If you would like to withdraw your question, press star 1 again. Thank you. I will now turn the conference over to James Lynch, Senior Vice President. You may begin.

[00:00:36.08] JAMES LYNCH: Thank you, Demi. Welcome, everyone, to our first quarter 2020 results call for California Water Service Group. With me today is Marty Kropelnicki, our Chairman and CEO, and Greg Milleman, our Vice President of Rates and Regulatory Affairs.

[00:00:52.08] Replay dial in information for the call can be found in our quarterly results earnings release, which was issued earlier today. The call replay will be available until June 29th, 2026. 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 on the company's website at [www.calwatergroup.com](http://www.calwatergroup.com).

[00:01:20.88] Before looking at our first quarter 2026 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.

[00:01:41.64] 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, forms 10-Q, press releases, and other reports filed with the Securities and Exchange Commission. And now I'll turn the call over to Marty.

[00:02:03.64] MARTY KROPELNICKI: Thanks, Jim. Good morning, everyone, and thank you for joining us this morning to review our first quarter 2026. There's really six primary areas that we want to talk about today. The first one being obviously the quarter. And I would say Q1 results were in line with our expectations given the fact we had it delayed 2024 general rate case.

[00:02:26.36] And to remind everyone, in March, we did get a proposed decision. And there's a comment period that follows that proposed decision, which is 30 days, our comments were filed. And then yesterday we received what's called a revised proposed decision that I've asked Greg to talk about a little bit more in detail later on in our discussion today.

[00:02:46.88] I will generally say that the revised proposed decision we're very happy with, and we are on the docket today for approval at the California Public Utilities Commission.

[00:02:57.51] In terms of the quarter, again, given the later the rate case, there was stuff we could not book because of the delay. But given where we are, in line with expectations, I think the highlight of the quarter is the fact that our infrastructure investment for the first quarter was up 17%, and we continue to make good progress on our PFAS treatment and cost recovery from the polluters who polluted the grounds and the waters that we treat.

[00:03:25.31] On the business development side, there's really two areas. Obviously, we remain focused on the Nexus acquisition deal as well as we filed our change of control applications in Texas to advance our purchasing of the minority interest in BVRT, which is the Texas partnership that we've been involved in for the last five years.

[00:03:46.35] Yesterday, at our board of directors meeting, our board declared our 325th consecutive quarterly dividend, and that follows, of course, the 59th annual dividend increase that we had in January.

[00:03:57.79] Additionally, as I mentioned, on our year end earnings call, we have officially kicked off our centennial year of operations, which means we've been going out to the regions that we operate doing employee and customer celebrations, which has gotten off to a very, very good start. I'll talk a little bit more about that later on today.

[00:04:17.99] Before we get into some of the details on these six subject areas, I'm going to turn it over to Jim to actually go through the financial results for the quarter. Jim, I'm going to hand it off to you, please.

[00:04:25.85] JAMES LYNCH: All right. Thanks, Marty. As Marty mentioned, the proposed decision on our California 2024 general rate case is expected later this afternoon. And having said that, our first quarter results do not include the impact of the revenue requirement or any of the other provisions included in the revised proposed decision.

[00:04:45.43] Recall that the company does have an interim rates memorandum account, and that does authorize us to retroactively apply the decision back to January 1 once it's finalized. So we're not losing out on any of the potential benefit from the rate case for the time that the decision has been delayed.

[00:05:09.19] In Q1 of 2026, revenue was \$214.6 million, compared to \$204 million in the first quarter of 2025. Net income for the quarter was \$4 million, or \$0.07 per diluted share, compared to the prior year first quarter of \$13.3 million, or \$0.22 per diluted share.

[00:05:30.79] Moving to slide 6, you can see the impact of activity during the quarter. The primary earnings drivers were rate increases, which added \$0.11 per diluted share, and accrued and unbilled revenue, which added \$0.06 per diluted share. The accrued and unbilled revenue increase was due primarily to warm and dry weather during the last month of the quarter.

[00:05:52.35] The revenue increases were partially offset by an overall decrease in consumption for the quarter, increased depreciation and interest expense related to new capital investments, and an increase in the effective income tax rate due to a reduction in tax credits, which, when combined with other items, reduced EPS by about \$0.32 per diluted share.

[00:06:14.47] Turning to slide 7, we continue to make significant investments in our water infrastructure to ensure the delivery of safe and reliable water. As Marty mentioned, our capital investments for the quarter were up 17.6% to \$129.5 million. Our total planned capital investments for 2026 is \$627 million, and this reflects the amounts included in the revised proposed 2024 California rate case decision. It also includes our estimated expenditures in the other states.

[00:06:49.19] The constructive impact our capital investment program is having on regulated rate base is presented on slide 8. If approved as requested, the 2024 California GRC and infrastructure improvement plan, coupled with plan PFAS investments and capital investments in our utilities in the other states, would result in a compounded annual rate base growth of over 11%.

[00:07:14.42] Moving to slide 9, we continue to maintain a strong liquidity profile to execute our capital plan, and we continue to pursue tuck-in M&A opportunities as we progress on the acquisitions of Nevada, Oregon, and BVRT.

[00:07:29.18] As of March 31, 2026, we had \$58.1 million in unrestricted cash and 45.6 million in restricted cash, along with approximately 470 million available on our bank lines of credit. We maintain credit facilities totaling \$600 million that are expandable to 800 million, with maturities that extend into March of 2028.

[00:07:54.06] We also have over 340 million remaining on the shelf registration, we filed in connection with our ATM program after completing approximately 6.1 million of program sales during the first quarter. Importantly, both group and Cal Water maintained strong credit ratings of A+/stable from S&P Global, underscoring the strength of our balance sheet.

[00:08:17.22] Turning to slide 10, we just declared our 325th consecutive quarterly dividend of 0.335 per cent per share. We also announced at our 2020 annual dividend of \$1.34 per share. This is our 59th consecutive annual increase and is 8.1% higher than 2025. And with that, I'll now turn the call over to Greg to discuss the revised proposed decision on our rate case.

[00:08:46.46] GREG MILLEMAN: Thanks, Jim. As Marty mentioned earlier, we received a revised proposed decision on our 24th California general rate case yesterday, and a final decision is expected later today or shortly thereafter. The revised proposed decision provides clear visibility into revenue growth, including approximately \$91 million in 2026, followed by 43,000,000 in 2027 and 49,000,000 in 2028.

[00:09:15.02] Importantly, it continues key regulatory mechanisms like the Monterey-style WRAM and authorizes cost balancing accounts, such as our pension cost balancing account, pension cost balancing account, health care cost balancing account, and a new general insurance liability balancing account, which helps stabilize earnings despite variability and customer usage and certain operating costs.

[00:09:42.86] While decoupling was not included, the decision introduces a new sales reconciliation mechanism and an updated rate design that better support fixed cost recovery. Overall, we view the revised proposed decision as constructive and supportive of continued infrastructure investment and long-term earnings stability. And now Marty will take us through the remainder of the deck.

[00:10:09.50] MARTY KROPELNICKI: Thanks, Greg. And just echoing what I said early on, I'm very happy with the PD that's going to the commission today for approval. And obviously, when it's approved, we will issue an appropriate press release and related 8-K with more of the details of what's included in that final decision.

[00:10:29.32] But I think it's fair to say, from Greg's perspective, managing our rates department, and Jim's perspective as being our CFO, I think we're very happy with the outcome and look forward to getting the rate case wrapped up and moving on with our plans for 2026.

[00:10:45.70] Moving on to slide 12, just a quick update on where we are with our Nexus project. As you may recall, we announced that we reached an agreement with Nexus to acquire their Nevada and Oregon operations.

[00:11:01.54] We have continued to progress very well working with Nexus. They're a great company to work with. We did file our change of control applications with both the state of Oregon and the state of Nevada.

[00:11:12.98] The state of Nevada has a six month statutory decision timeline. Oregon does not. We're hoping the two will try to stay on track around the same time, and we can drive to close these transactions as early as by the end of the year.

[00:11:27.22] In the interim, the subject matter experts continue to work very, very well together, and we are mapping their processes into our systems. I've also had the pleasure of visiting all the sites in Oregon and Nevada, and very happy to say I was very pleased with all the employees that I met with. They are very, very professional and very, very sound operators as well as an outstanding management team.

[00:11:50.57] In addition, since we last talked, I have had meetings with all the commissioners in the State of Oregon, as well as the commissioners in the state of Nevada as well as their staffs. Those meetings have all gone very well as well.

[00:12:05.09] When we conclude this acquisition of the Nexus assets, essentially, it'll give us almost 100,000 connections outside of the state of California in total, which is about 20% of our total connections. So, again, diversifying out of California, expanding our footprint on the West Coast.

[00:12:23.01] In addition, and I think this is significant. It's something we don't talk a whole lot about. But for those of you that have been with us for a long time, if you remember, in 2008 and 2009, we started talking more about water and the wastewater business and recycled water. And back then we really had one to two wastewater treatment plants that we operate.

[00:12:44.61] When we get this deal closed with Nexus, as well as the BVRT final buyout of the minority interest, we'll have over 24 wastewater plants that will be operating in the Western half of the US. And I think, again, that just goes to show our diversification out of California into wastewater and then also recycled water, which I believe is going to play a very important role for water on the wet in the Western half of the United States.

[00:13:12.05] Looking at slide 13, on the BVRT slide, we did file the change of control application with the Texas Commission that is on file with them. In addition, we added another 210 connections to our existing system. So we are waiting for the Texas Commission there as well. And then we will close on the minority interest that still remains in BVRT. And then that will become a wholly owned subsidiary of Texas Water Service company.

[00:13:39.77] Moving on to slide 14, we have started officially celebrating our Centennial anniversary. I'd encourage everyone to take a look at our annual report. Our corporate communications team, headed by Shannon Dean, did an outstanding job going through then and now and next, which is the theme of the annual report.

[00:13:59.57] I'm also very happy that we've had over 41,000 people visit our Centennial website, which has a lot of information about the company, the rich history of the company, and how we grew from the idea that started with three World War I veterans to being the multi-billion dollar company that we are today.

[00:14:19.45] If you're interested in that site, I encourage you to look at it. You can visit it, and the URL is [100years.calwatergroup.com](http://100years.calwatergroup.com). And celebrating our 100 year anniversary, we have scheduled a number of events throughout the state of California that includes both employees as well as local officials. We held our first one in Bakersfield. That was a big success. And we'll have another one here in Southern California in June.

[00:14:48.37] The overall goal of the program and celebrating this at a regional level, is it allows us to increase awareness of the company's track record among our local communities and our public officials that we were allowed to serve.

[00:15:00.15] In addition to getting people together to celebrate our success, we also are getting a lot of proclamations and resolutions from, for example, the Speaker of the California State Assembly, the city of Visalia, Chico Chamber of Commerce, the Central Valley Asian chamber of Commerce, and the San Joaquin Hispanic Chamber of Commerce. And there's more to come.

[00:15:20.51] So it's actually fun to be out there talking about hundreds years of service and reflecting on where we started to where we are today. With that, I'm going to-- Demi, let's open it up for Q&A, please, for the guests on the call.

[00:15:37.37] DEMI: Thank you. As a reminder to ask a question will need to press star, then the number 1 on your telephone keypad. If you would like to withdraw your question, press star 1 again. We'll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Davis Sunderland with Baird. Your line is open.

[00:16:04.80] DAVIS SUNDERLAND: Hey, Marty, Jim, Greg. Good morning, guys. Thank you so much for the time and appreciate all the information here. Two questions for me. Maybe a PFAS question and then a balance sheet question. I guess I'll just start.

[00:16:16.30] The EPA has been talking recently about microplastics and potentially regulating some other substances outside the initial PFAS guidelines. Just wondering if you guys have any early thoughts on this, and specifically if these might be treatable within your current plans, or if this would require further capital investment beyond what you've already laid out.

[00:16:35.16] MARTY KROPELNICKI: Yeah, good question Davis. And some of you have heard me talk about UCMR, which is really the unregulated contaminant list that the EPA publishes. And they update that list every so many years. If you really want to see what's coming down the pipe, no pun intended, on water regulation really want to monitor that UCMR list. And microplastics has shown up, and it has evolved on that list.

[00:17:02.62] And so it is certainly something that is a hotter topic at the EPA right now. And it is something that's in water supply. And it's something that will likely see regulations establishing the MCL to make sure there are no microplastics in the water.

[00:17:22.14] So there's more to come from the EPA on that. Obviously, they go through a scientific process. And then they come up with standards. Those standards get handed off to the states. And the State Department of Health is responsible for implementing those standards at the state level. So do I believe you ultimately have a standard that will come up on microplastics? Yes, I do.

[00:17:43.28] And I think as a society, we've gotten a lot better at not putting microplastics into the ground or into the ocean. So I think that part, it's actually improving, but I do think at some point, we will actually have a standard that will evolve, that will help to treat for. And as part of that process, the EPA will also talk about what are the appropriate methods and techniques to treat the water that has microplastics in it.

[00:18:08.32] JAMES LYNCH: Yeah, I think it's uncertain or unclear right now whether or not our current treatment that we're putting in place for PFAS will be effective for the microplastics. And that will depend largely on the EPA.

[00:18:21.88] MARTY KROPELNICKI: Right.

[00:18:24.25] DAVIS SUNDERLAND: Super helpful, and thank you guys. Maybe then just turning Jim to balance sheet. I appreciate all the comments on liquidity and available credit, but maybe if you could just talk a bit about how you're thinking about equity issuance and capital needs more broadly throughout the balance of the year. That'd be super helpful.

[00:18:39.76] JAMES LYNCH: Yeah, I think we're going to knock on wood. We feel very confident that we'll be successful in closing both BVRT and the Nexus acquisitions in Nevada and in Oregon. And so that will be incremental to our normal cadence of debt and equity issuances.

[00:19:04.28] We'll take a look in terms of the timing on when we anticipate that's going to occur and right size or determine what the most efficient way that we can actually approach capital markets to fund those transactions when the time comes.

[00:19:21.86] I think that there's some pretty interesting instruments out there relative to forwards that will allow us to time it a little closer to where we can minimize any dilution that could occur in terms of the difference between the time we raise the equity and the time we actually close the transactions. And so we'll be looking into that.

[00:19:44.44] We believe when the transaction is closed, it would likely occur towards the end of the year. And that's when I would take a look at when we would look to raising the capital for those. Otherwise, we would continue to rely on our ATM and our normal lines of credit taken out by longer term debt, as we work through our capital programs and fund our other capital needs.

[00:20:09.80] MARTY KROPELNICKI: Yeah, Jim, if you don't mind me jumping in. Davis, it's probably worth mentioning too. As you recall, we have our PFAS program, which is fairly substantial, and we have a separate application before the commission that we're waiting to hear on because that will add further pressure on Jim on the capital side.

[00:20:27.32] But the flip side of that is we've been very successful on the litigation side in-- just last week, we received another \$6.5 million gross from the polluters trust that have been set up. So we have recovered about \$66.5 million in gross receipts in our recovery process, going after polluters, which, again, that's just about \$50 million-- at \$50 million, will be a direct offset to our PFAS program and help keep those costs lower for our customers.

[00:20:59.93] So we're approaching 20-25% of those estimated PFAS costs being covered through our legal efforts. And our legal team continues to do a very, very good job at leading our industry efforts and getting recovery on that. So that'll help a little bit.

[00:21:15.23] And for some perspective on that, we initially anticipated two basically segments of the program, one is treatment and one is well replacement, with our objective to get the treatment in by the end of 2028, and then the well replacements will take some longer time. Of the total amount we plan to spend on PFAS, about \$60 million of that is for the wells and the remainder is for treatment.

[00:21:47.31] DAVIS SUNDERLAND: Super helpful details, guys. I appreciate it very much. And best of luck tonight with the meeting in the GRC. It's been a long road and excited to have it behind us. Thank you.

[00:21:55.25] MARTY KROPELNICKI: All right, Davis, thank you.

[00:21:56.49] JAMES LYNCH: Appreciate it. Thanks, Davis.

[00:22:00.35] DEMI: Once again everyone, if you would like to ask a question, press star 1 on your telephone keypad. There are no further questions at this time. I will turn the call back over to Martin Kropelnicki, CEO, for closing remarks.

[00:22:17.87] MARTY KROPELNICKI: Thank you, Demi. Thanks, everyone for joining us today. Obviously, I think that the big thing to watch for moving forward is really what happens at the commission today. We're hoping for approval. And again, I think we're very happy with the revised proposed decision that's on the docket for today.

[00:22:37.67] As we move into the second quarter, what are we going to be focused on? Obviously, we have to implement the results of the rate case. And while that sounds like an easy task, there's a lot involved in doing that.

[00:22:49.83] Obviously, there's a retroactive piece that goes back to January 1 that Jim and his team will have to work on, and we'll give a lot of clarity around that as we wrap up the quarter and have the appropriate disclosures and our financials for our second quarter, 10-Q.

[00:23:04.91] In addition, there are thousands of table changes that have to take place on the billing cycle with the new tariffs. And so the rates team working with our customer service team, the accounting team, and the IT team will be making those tariff changes and doing the appropriate testing to make sure our tariffs are accurately being billed. Assuming an approval today, we anticipate starting billing the new tariffs on July one of this year.

[00:23:32.51] And then in addition to that, we're staying very focused on our M&A side and really the Nexus transaction and the BVRT transaction, answering the commission's questions on the change of

control applications, as well as doing all the integration work and being ready to do a quick close and integrating those assets onto our platform once approved by the appropriate commission.

[00:23:55.35] So it's going to be a busy, busy second quarter and then throw in the 100 year celebrations on top of that, we have a lot going on, but certainly the team remains laser focused on the tasks at hand.

[00:24:06.83] The last thing I want to do before we hang up this is Greg's last earnings call with us. And if you Greg Milliman, he's not a person that wants a lot of hoopla or fanfare, but I couldn't let the morning go without recognizing his contributions to California Water Service Group.

[00:24:24.67] We recruited Greg from Valencia water in 2013, where Greg served as senior vice president of administration. And believe it or not, we are Greg's third job out of college. And start off with Arthur Andersen and then went to Valencia water, and then he joined us.

[00:24:44.50] So we brought Greg in as a manager of special projects. We were very impressed with him when we met Greg, and didn't really have a spot for him, but we thought he was a very quality hire, a senior hire from within the water industry.

[00:24:58.50] Within a year, he was promoted to the director of operations, helping the operations team focus on deploying capital more quickly and more efficiently, and making sure that plant is getting into service as quickly as possible.

[00:25:11.22] In 2017, he was named the interim director of rates to help lead our rate case efforts, and in 2019, he was named vice president of rates for California. And then in 2022, when Paul Townsley retired, he took the helm as our vice president, rates and regulatory affairs to lead our overall rate strategy for all of our operating companies.

[00:25:31.34] Greg's only been with us 13 years, and from a Cal Water standpoint, that's not a lot of time. We have a lot of employees that are in their 30s and 40 years of service with the company. But Greg's impact on the company has been nothing short of outstanding.

[00:25:46.98] And if you look at our rate cases over the decade that he has been with us for 13 years, he's been with us, we have done the best with our rate cases under his leadership and his management. So I would be remiss if I didn't take this opportunity to tell Greg, thank you and to wish him and Jane all the best in retirement, and we look forward to keeping in touch as we do with all of our retirees. So, Greg, thank you.

[00:26:12.98] JAMES LYNCH: And with that, Demi, we'll wrap it up and we'll see everyone next quarter. Thank you very much.

[00:26:20.54] DEMI: Ladies and gentlemen. That concludes today's call. Thank you all for joining. And you may now disconnect.