MODERATOR: --for standing by. My name is-- I will be your conference operator today. At this time, I would like to welcome everyone to the California Water Service Group Q2 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. If you would like to withdraw your question, press Star-1 again. Thank you. I would now like to turn the call over to James Lynch, Senior Vice President, CFO, and treasurer. Please go ahead.

JAMES LYNCH: Thank you, D. Welcome, everyone, to our second 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.

A 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 September 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 second quarter 2024 results, I'd like to take a few moments to cover 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 Forms 10-K, 10-Q, press releases, and other reports filed from time to time with the Securities and Exchange Commission. I will now turn the call over to Marty to start us off.

MARTY KROPELNICKI: Great. Thank you, Jim. Good morning, everyone. Thanks for joining us here today. It's been a busy quarter, and we have a number of items we want to update you on today.

First, I'm going to ask Jim to give you an update on our financial performance for the quarter. And I'll just lead into that by saying, what a difference a year makes. Last year, no rate relief, this year, getting the '21 rate case finally concluded and on the books has made a big difference.

But I also asked Jim to include some of the highlights of our capital program for 2024 infrastructure improvement plan. We have Greg Milleman here today to talk about the filing of the 2024 general rate case and infrastructure improvement plans in the State of California. This covers our capital forecast for the State of California for years 2025 to 2027.

I want to spend a little bit of time talking about the recent California Supreme Court decision that protects water utilities rights to due process and preserves decoupling. Spend some time talking about emergency response. If you've watched the fires in California, it's been a very busy fire season so far this year.

So we want to give you an update on the current fires as well as our community outreach efforts to continually improve our process in which we help first responders fight fires. Give an update on PFAS and the ongoing remediation activities the company has planned for the next three years.

Give you an update on our business development activities and what's going on there. And then conclude talking about ESG and our recent ESG report that was published in May. So before giving you the operational update, I'm going to turn it back over to Jim to give an update on the financial results for the quarter and year to date. Jim.

JAMES LYNCH: Thanks, Marty. As Marty mentioned, our Q2 2024 financial results benefited from new rates and the rate structure authorized in our 2021 California GRC. In addition, since Q2 2023, our return on equity increased its endpoint to 7% under our water cost of capital mechanism adjustment, and we benefited from water production offsets and other advice letter filings.

As a result, our operating revenue for the quarter increased 25.9% to $244.3 million compared to our prior year Q2 operating revenue of $194 million. Reported net income for the quarter was $40.6 million or $0.70 per diluted share, compared to $9.6 million or $0.17 per diluted share in Q2 2023.

The quarter over quarter growth was driven primarily by a $19.3 million increase in rates billed to customers as authorized in our regulatory filings, an increase in accrued unbilled revenue of $10.4 million due to higher rates and an increase in the number of unbilled days, and the recognition of $8.2 million in accrued M-WRAM revenues, and $7.9 million in accrued IRMA revenues.

As a reminder, our 2021 GRC was adopted in Q1 of 2024 and included 2023 interim rate relief, which totaled $64 million. $18.7 million of the interim rate relief was attributable to Q2 of 2023. Q2 2024 operating expenses were $196.1 million compared to Q2 2023 operating expenses of $178.1 million.

The $18 million increase was primarily driven by $6.8 million in higher water production costs, and $8.4 million in higher income tax expenses related to higher pre-tax earnings. The impact of the Q2 2024 activity on diluted earnings per share is presented in the Q2 2023 to Q2 2024 diluted earnings per share bridge on slide 6.

The more significant earning drivers were the 2021 GRC rate increases and increases in accrued revenue, which contributed $0.23, $0.26, and $0.14 respectively to diluted earnings per share. These drivers were partially offset by increases in water production expenses of $0.09 per diluted share and other factors that netted to a penny per diluted share.

Our year-to-date 2024 results benefited from the same regulatory outcomes as our quarterly results. In addition, recall that in Q1 2024, we recorded benefits related to the California Extended Water Arrearages Payment Program or EWAPP. This enabled us to decrease the deferral period of RAM and MCBA revenue and expenses.

Our 2024 year-to-date operating revenue increased 58.4% to $515 million compared to 2023 year-to-date revenue of $325.1 million. Year-to-date 2024 net income was $110.5 million or $1.90 per diluted share compared to 2023 year-to-date net loss of $12.7 million or $0.23 per diluted share.

The year-to-date growth was driven primarily by cumulative rate increases from the 2021 general rate case of $131.5 million, $31.6 million in rate increases billed to customers, and the recognition of $16 million in previously deferred RAM revenue as a result of securing the EWAPP funds for the payment of eligible customer balances.

Year-to-date 2024 operating expenses were $389 million compared to 2023 year-to-date operating expenses of $326.7 million. The $62.3 million increase was primarily driven by increased water production costs of $16 million, that included $9.2 million related to the incremental cost balancing account, or ICBA. The ICBA is a new water cost recovery mechanism authorized in the 2021 GRC.

We also recognized $13.6 million in deferred costs associated with the recognition of deferred RAM revenue, and year-to-date income tax increased $29.5 million due to higher pre-tax earnings. The impact of the year-to-date 2024 activity on diluted earnings per share is presented in the year-to-date 2023 to 2024 diluted earnings per share bridge on slide 8.

The more significant earnings drivers are the 2021 general rate case, rate increases, and the decrease in deferred RAM revenue, which contributed $1.82, $0.44, and $0.22 respectively to diluted earnings per share. These drivers were partially offset by increases in expenses captured in the ICBA of $0.13 per diluted share, the recognition of deferred RAM expenses of $0.19 per diluted share, and other factors net of $0.03 per diluted share.

Turning to capital, we continue to make significant investments in our water utilities to help ensure the delivery of safe and reliable water service. Group capital investments during the three- and six-month periods ended June 30, 2024, totaled $104.6 million and $214.4 million respectively, which is an increase of 9.8% and 21% respectively over the same period last year.

As of June 30, 2024, we've completed 56% of our annual capital budget of $385 million. As a reminder, our planned 2024 capital investments and our estimated capital investments for 2025 to 2027 do not include $226 million of estimated PFAS projects that will be constructed over multiple years beginning in the second half of 2024. Greg will discuss the planned capital expense for 2025 to 2027 that we applied for in the 2024 GRC and infrastructure improvement plans later on the call.

The growth of our capital investment program is having a positive impact on our regulated rate base. Our overall rate base grew to an estimated $2.2 billion by the end of 2023. This is an increase of 9.4% over 2022. If approved, as requested, the 2024 California General Rate Case and Infrastructure Improvement Plan, coupled with the planned capital investments in other water utilities, would result in a rate base growth of between 9% and 14%.

Moving to slide 11, we maintain a strong balance sheet with a capital structure of 59.5% equity and 45.5% debt. During the six months ended June 30, 2024, we raised approximately $52 million from the sale of a million shares of stock under our at-the-market or ATM stock equity program. We have $80 million remaining under the program that can be used to finance general corporate purposes, including planned capital investments and future strategic opportunities.

On June 28, S&P affirmed our global credit rating of A+ Stable. We are pleased with this upgrade which speaks to our ability to navigate the credit markets in our California Water Utility. On July 22, the CPUC issued a proposed decision authorizing Cal Water to issue up to $1.3 billion in new debt and equity securities. Cal Water anticipates the CPUC will approve the proposed decision during its August meeting.

And just to mention that, yesterday, our board of directors declared a $0.28 per share dividend for our stockholders of record on August 12, 2024. This was our 318th consecutive quarterly dividend.

Wrapping up on slide 10. We continue to maintain a strong liquidity position. As of June 30, 2024, the company had cash and cash equivalents of $82.7 million, of which $45.4 million was classified as restricted. Further, we had additional short-term borrowing capacity on our lines of credit of $355 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 July 8, 2024, California Water Service submitted our infrastructure improvement plans for 2025 through 2027 as part of its triannual general rate case. Cal Water proposes to invest more than $1.6 billion in its districts from 2025 to 2027.

To enhance affordability, particularly for low-use, low-income customers, Cal Water's application proposes a Low-Use Water Equity Program that would decouple revenues from water sales across its regulated service areas.

Filing requests total revenue increase of $140.6 million or 17.1% increase for 2026, $74.2 million or 7.7% for 2027, and $83.6 million or 8.1% for 2028. The triennial filing begins an approximate 18-month review process by the Commission. With that, I'll turn it over to Marty. Marty.

MARTY KROPELNICKI: Great. Thank you, Greg. Thank you, Jim. I want to start off talking about the California Supreme Court case that came out on July 8.

As many of you probably have read, the California Supreme Court in a unanimous decision ruled in favor of the four investor-owned water utilities that brought suit against the PUC. It's very important to note that the decision helps preserve decoupling and also protects the rights of utilities to have due process in the ratemaking process.

As you know, we are big believers in conservation. Decoupling in California goes back to the '70s when it was first used in the electric and gas industry and has played a major role in helping California reach its sustainability and renewability goals.

We feel the outcome is really important because it reinforces the importance of due process and ratemaking. In other words, the Commission has to follow the rules that are set forth in the ratemaking process as well as the company. But it also allows us to continue to better align with the State of California's goals around sustainability, reliability, affordability, and conservation.

If you followed the California rules over the last couple of years, California has gotten very aggressive at the state level about making conservation a way of life. As I mentioned, decoupling is a very important tool that helps keep our customer rates affordable as we promote conservation to improve sustainability of critical water resources.

So we're very happy with the outcome from the State Supreme Court. And as Greg mentioned, in the current filing that we just filed earlier this month, we have, again, submitted plans for approval to re-implement decoupling for our customers in the State of California.

Moving on to slide 14, I want to talk a little bit about where we are with fire season and our emergency response programs. If you've been watching the news or if you look at the fire maps for the State of California, there are times it feels like the majority of the state is really on fire. So far this year, we've had three major fires near our service territories. We've had the Thompson fire, the Park fire, and the Borel fire.

Currently as we speak, the Park fire and the Borel fires are still burning. The Thompson fire, which took place in early July, was around our Oroville service area, and it burned approximately 3,800 acres in a very small community in Northern California.

The Park fire and the Borel fire, which started about a day apart, one was up near Chico, California, which has burned to date. As of this morning, 391,000 acres. That's equivalent to 610 square miles, and it's approximately 18% contained. The Borel fire, which is in Bakersfield, which is more Central California in the Kern River area, has burned approximately 59,000 acres and is 39% contained.

I'm very happy to report that despite these fires coming very close to Cal Water assets, none of our assets have been affected or destroyed by the fires, and the company has just done an outstanding job at working with first responders and getting our employees into the county and state EOCs to help coordinate water supply and to make sure that we do what we can to make sure firefighters have what they need to battle these wildfires.

Unfortunately, it's very indicative that this is going to be a long fire season. And as we get into the months of August, September, and October, I believe we'll be spending a lot of resources dealing with the continuation of what was a very wet winter and what now has been a very hot, dry summer.

Along with that, one of the things we do each year is we set certain corporate goals to host a certain number of what we call community EOCs or community emergency operations center exercises. We tend to target these exercises in communities that don't necessarily have all the resources to pull off all tabletop exercises to help communities and first responders better prepare for disasters.

Recently, we hosted two of these events in the State of Hawaii, one on the Island of Maui and one on the Big Island of Hawaii or what's also known as the Kona Coast.

Both of these events were very well-attended by first responders, local state, and local and state officials, including members of the Hawaii Public Utilities Commission, civil defense, critical infrastructure companies, including the electric company, the county water departments, and other people who play an important role in dealing with these disasters.

In my part of the presentation that I gave at the classes in Hawaii-- and the classes include two pieces. There's a class piece of it, which is really how to use the Incident Command System, which is the basic FEMA model for dealing with emergencies. So that's the classroom-led part of the day.

And the second part of it is a hands-on disaster simulation. As I told the people in the class I was participating in, I call it the three C's. It's absolutely critical that we connect, we communicate, and we coordinate. And when we do that as critical infrastructure companies helping first responders, we help save lives. And that's very, very important in the world that we live in today and a world that is dealing with climate change.

Moving on to the next slide, I want to give you a brief update on where we are with the new PFAS PFOA standards. We're moving forward with our plans to implement our treatments on approximately 101 wells. If you look at the footnote on Jim's slides, which are slide 9 and 10, you'll see that our estimates have changed a little bit based on more data that we've been able to gather as we put our project plans together.

So that number increased approximately $11 million to $226 million. That's at right now. That's our best guess cost to treat the 101 wells that require treatment. By the way, that's 101 wells out of approximately 1,170 wells, so to give you an idea of what part of our portfolio requires treatment.

Just to remind everyone that the $226 million is not included in the capital forecast on the rate base slides or the capital investment slide, it's included in the footnote, and the $1.6 billion that was included in the 2024 general rate case does not include these costs. So they're incremental to the investment projections that we've given the street so far to date.

And we expect to refine these costs as more information comes in with the project plan. But overall, we're moving forward. We believe we will be adopting these standards ahead of schedule within our service territory. Our goal is to have them implemented within the next three years.

And also, one important milestone that was reached in the quarter is that we did file our phase 1 claim form in the 3M and DuPont class action settlements. So those class action settlement discussions are moving forward. As a reminder, Cal Water is the class rep in all PFAS matters representing the industry in those discussions. So overall, moving forward with the areas, our estimates moved up a little bit, but we are charging ahead as planned.

Moving on to slide 16, just to give you a brief update on what's happening on the business development and M&A side. It was a fairly quiet quarter for us. We did complete one very, very small but strategic acquisition called Kings Mountain Park Mutual Water Company.

The significance of this certainly is not its size, but it's the fact that this little system lies in between our Bear Gulch system and the Skylanders system here in the Bay Area that we acquired about a year ago. So our roots go back to Bear Gulch for a long, long time. We have owned and operated that system for a long time. Last year, we acquired the Skylanders system, and we just closed on the Kings Mountain System.

Putting these three pieces together allows for a more efficient deployment of capital, it improves reliability, and allows us to ultimately improve service to customers in that area. More importantly, I think it's a good example of how we continue to consolidate and grow an existing service area that's been built out.

If you know anything about the San Francisco Bay Area, this is on the Peninsula side of the Bay Area as you go up the 101 corridor. So even when there are places that may not look like there might not be opportunities to be more efficient, there clearly are. And I think this acquisition represents a good example of how we do this to continue to grow and try to become more efficient.

Since 2019, we have completed over 36,000 connections that we've added to our platform using this tuck-in strategy. And we anticipate that we will continue to add, at least, 1%, 1.5% new connections going out forward into the future using this strategy.

Next, I want to take a moment to give you an update on our ESG report that was filed in May. If you're interested in ESG, our plan aligns with the Sustainability Accounting Standards Board and their Water Utility Service Industry Standards, it references the Task Force on Climate-Related Financial Disclosures, TCFD, and it references the Global Reporting Initiative Standards, GRI. So all that information is available on our plan.

In the report that was just filed, we make our commitment to reduce our greenhouse gases, scope 1 and scope 2 greenhouse gases by 63% by the year 2035. We plan on accomplishing this through a multi-pronged approach that includes electrification of our fleet, continuing aggressive water conservation, building alternative energy sources of supplies for some of our service areas, and aggressively going after renewable electricity procurement.

As you may recall, water utilities use a lot of energy in pumping and transporting water. And we believe using this multi-prong approach, we can easily achieve these goals by 2035 and hopefully ahead of schedule.

In addition, I want to point out just a couple of fun things. Obviously, the water quality compliance, that is a core part of our DNA, that we meet and exceed all the primary and secondary water quality standards every day that we operate in all the states that we operate in. And that's a big part of our bonus plan that our employees participate in.

But if you saw, a few weeks ago, we announced that we just completed our 10th year of our scholarship program. So this year, Cal Water, again, awarded more than $80,000 to 12 students in California, Hawaii, and Washington.

Since starting the program in 2014, we have awarded more than $750,000 to students in our service area, and we're very, very proud to do that. One of the things about being a 98-year-old water company sometimes is you forget about younger people in. This program that we've been in now for a decade has been very, very successful.

And it's a lot of fun going through the application process and looking at some of the students of our customers, many of whom are first-generation college students, and what their goals are, and what they're studying, and how they want to go get their education and come back and help make their communities a better place. So we're very, very proud of that scholarship program.

And then lastly, I want to share with everyone that, recently, ISS updated our ESG score to 72.28. So that's the raw score, 72.28. On their scale, that gives us a B-plus. And while a B-plus is not an A, there are no A's that have an ESG score in the water utility space.

We are the highest-rated ESG score for an investor-owned water utility in North America, according to ISS. So just kudos to our ESG team on our continuing implementation of our strategy as we move forward in dealing with climate change and how we support our communities, employees, and our shareholders.

OK. So in conclusion, overall, solid quarter, as Jim mentioned. I know the numbers are a little bit confusing. I apologize for that. That was circumstances beyond our control. We had to book all the '21 rate case in '24 and not '23, but clearly you're seeing the benefit of the rate relief start to flow in with the company.

I'm very, very happy with the capital numbers that Jim shared with you. The 9.9% quarter over quarter and the 21% year-to-date growth on CapEx. I think that's indicative of our continued focus on our infrastructure improvement plans and how we're trying to improve sustainability and reliability on behalf of our customers.

Q3 is typically our busiest quarter. It's usually our peak demand quarter from an operations perspective. As I mentioned, it's going to be busy just in the normal course of operations, but we're also dealing with a very significant fire season this year.

And so as I mentioned, we have two fires right now that we've been allocating resources to, the Borel fire and the Park fire. And so it's going to be a very, very busy quarter from a fire prevention perspective and working with our first responders to make sure they have what they need to fight fires.

Having said that, it's also-- we're in the middle of the rate case. And so all the data requests are coming in and going through-- working with the request of the California advocates. So we'll continue to try to keep our general rate case on schedule. But overall, I'm very happy with the performance for the quarter. I'm happy we got our rate case filed on time. I'm happy that we are continuing our growth in our capital programs.

And more importantly, I think I'm happy that we're doing what we do on the emergency response side. Because, again, if you follow those three C's, you help save lives. And at the end of the day, I think that's one of the most important things that we do. So with that, D, I'm going to hand it back to you and we will open it up for questions.

MODERATOR: 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. If you would like to withdraw your question, simply press Star-1 again.

If you are called upon to ask your question and you're listening via loud speaker on your device, please pick up your handset and ensure that your phone is not on mute when asking your question. Again, it is Star-1 to join the queue. Our first question comes from the line of Michael Gaugler from Janney Montgomery Scott. Please go ahead.

MICHAEL GAUGLER: Morning, everyone.

MARTY KROPELNICKI: Morning, Michael.

JAMES LYNCH: Morning, Michael.

MICHAEL GAUGLER: Just one question. Back on slide 9, your CapEx deck, looking out the note at the bottom, Marty, I think you referenced this, that the estimates for 2024 to 2027 exclude PFAS-related capital investments.

Given those investments are probably going to be made, I'm wondering what the cadence of that would look like across the years. Maybe not so much 2025, but maybe '26, '27, '28, and where your thoughts are there.

MARTY KROPELNICKI: Sure. So let's go back to what our basic goal is, which is we try to balance affordability and new capital while keeping the investment rate about three times the rate of depreciation. So that usually gives us about a 9% to 10% compound annual growth rate on the CapEx line. Clearly, as you can see, there's a big step up in 2025 and '26 associated with the rate case.

Now, those numbers, that's the full ask of the rate case. You never get 100% of what you ask for. In the last rate case, Greg, I think, including the advice letters, we got about 79% of what we requested, which in the rate case prior to that I guess would have been the-- 18 rate cases in California were in the 80%s.

GREG MILLEMAN: Yeah. Very similar.

MARTY KROPELNICKI: Yeah. So for planning purposes, Michael, we're planning around that 9%, 10% figure on the CapEx. And the importance of that is it allows us to try to balance affordability on the right side. The PFAS piece of it is-- that's a new standard that we have to comply with.

And there was a lot of speculation around that because the EPA was a little slow on the uptake in getting the new requirements out. We run things like that. So things that are newly being introduced into our portfolio as a separate program. Because in the case of PFAS, we have one project team within our company that's coordinating all the PFAS projects across our enterprise.

And so that will be incremental, so I think you could expect a higher number probably in that '26 and '27 year driven by the PFAS investment. And a number of variables will come into that. Obviously, PFAS and PFOA and the forever chemicals have had a lot of press.

And if you remember early on in the draft information that was communicated, they said that we have to implement it in three years, and they said, OK, no, now it's a five-year implementation. It's really hard to look your customers in the eye and say, OK, five years from now, your water is not going to be safe, but don't worry about it until then.

Which is why we made the commitment that we're going to invest the money up front, we're going after the PFAS treatments now, and we're starting the process this year to implement those-- implementing treatment on those wells that need required treatment. So I think you're probably looking at for and '25 and '26, it'll be higher than 9.9% driven by the PFAS.

MICHAEL GAUGLER: All right. That's all I had, gentlemen. Thank you.

MARTY KROPELNICKI: Thanks, Michael.

MODERATOR: Our next question comes from the line of Davis Sunderland from Baird. Please go ahead.

DAVIS SUNDERLAND: Hey, Marty, Jim, Greg. Good morning, guys. Thank you for taking my questions.

MARTY KROPELNICKI: Sure.

DAVIS SUNDERLAND: I wanted to ask, going back to the business development pipeline-- and I apologize, it might have been an error on my end, but I heard some choppiness coming through when you were talking about that.

Maybe just any thoughts on how things are shaping up with smaller systems, maybe having difficulties complying with the PFAS standards, and just any changes you've seen or opportunities that you've seen pop up related to some of these smaller systems that may fold into the acquisition pipeline, or how you see this playing out, and then I have one follow-up.

MARTY KROPELNICKI: Yeah. It's interesting you ask that question. This week we had our person who's in charge of water quality out in one of the states that we operate in giving a presentation to commissioners about, what does PFAS, PFOA mean?

And the good news is we got really good feedback that they love what we're doing, but they said, wow, what are all these small systems in our state going to do? So I think you're starting to see an awakening that there's going to be a huge capital requirement in some of these small systems that are probably undercapitalized and lack liquidity, and I think that'll play to our benefit.

The other thing in talking to our head of business development, Shilen Patel, interest rates have been higher, the cost of capital has been up, and seller expectations have remained pretty high. We're starting to see the seller expectations soften up a little bit, which is nice. And in the case of the deal I mentioned, the Kings Mountain, we actually purchased that system for $1 because the company just couldn't-- weren't the best operators.

It requires capital, we have the ability to put that capital into the system and improve their service levels, and more importantly, it allows us to connect the three systems and get that synergy of operating those three systems and those three sources of supply. So I think you're starting to see a little bit more movement in that area.

Now, business development, M&A, and the water space just moves slow. How fast of a catalyst will it be, I think that's to be determined. I think the larger IOUs are held to a very, very high standard on water quality, and if we miss any new requirements, they find the heck out of us.

But I think generally speaking, the EPA has a hard time enforcing those standards with private small companies that just aren't on the radar screen. And I think that piece that will be interesting to watch.

But certainly, we're seeing a softening of expectations with sellers, and I think we're starting to see a little bit more activity in small systems as this PFAS, PFOE requirements come into play. And I think it's really important to keep talking about those new requirements, what does it mean, and why they're important.

DAVIS SUNDERLAND: Great. That's super helpful. Thank you for that. And then the only other one for me, you actually started to talk about it with Michael's question previously just about never getting 100% of what you ask for. And I guess my question, just to frame it up a little differently is, have you had any pushback or do you anticipate any pushback with the proposed rate increases or any friction from the consumer advocates, so your thoughts there. Thanks, guys.

MARTY KROPELNICKI: Greg, that's probably more a question for you.

GREG MILLEMAN: Sure. It's still too early in the case. I mean, we just filed it July 8, and we've started receiving data requests on it. But it's really still-- what, we're three weeks in? So it's still too early to tell what our overall feeling will be.

MARTY KROPELNICKI: Yeah. I would just add to that, look, inflation is high and everyone's feeling it. And our customers are not exempt from that, Cal Water is not exempt from that.

Last month I gave a presentation or an update to the board about our rate case, and before I gave them what the numbers looked like, I talked about what some of our cost increases were over the last three years. Labor is up 15% to 20%. Chemicals are up 35%. Ductile iron is up 200% since 2022. So that's one of the reasons why we try to balance affordability.

That's why decoupling is really important, frankly, because it allows you to implement a rate design that people who use less water, and especially people in underserved communities and people on fixed income, it allows you to potentially sell that water at below a marginal cost. And for the super users of water, people who can afford to use a lot of water, you charge them more.

And so one of the things I like in the GRC application that we put in is the fact that we have a really nice rate design that really benefits the softer users of water who are, typically, the fixed income and maybe underserved communities, and really ramps up the charging of people who can afford to pay the water bills and who want to use a lot more water. So I think it'll be interesting to see, but, obviously, affordability and inflation, it's a tough time right now.

DAVIS SUNDERLAND: That's great. Thanks, guys. Appreciate the time.

MARTY KROPELNICKI: Thank you.

GREG MILLEMAN: Thanks, Davis.

MODERATOR: Our next question comes from the line of Jonathan Reeder from Wells Fargo. Please go ahead.

JONATHAN REEDER: Hey, good morning, team.

MARTY KROPELNICKI: Morning, Jonathan.

JONATHAN REEDER: You just addressed my questions around the GRC and the CapEx and the rate impact. But on results itself, was there anything in the $0.70 of EPS that was nonrecurring or maybe a result of the retroactiveness of the 2021 GRC decision?

JAMES LYNCH: Well, certainly in the year-to-date numbers, we had the-- I think there are $64 million of net income in the year to date numbers that-- well, I think we recorded $64 million in 2024 of 2023 income that will not repeat itself.

In the deck I think I also mentioned that we carved out $18.7 million of interim rate relief. So $18.7 million of that $64 million was attributable to the second quarter of 2023. So if you want to get a sense of what the impact would have been had we had timely rate relief, that gives you a little bit of sense of how 2023 was impacted.

Now, as far as the quarterly results go, there really wasn't anything that was unique to the quarter other than the new rates, and those will continue on going forward that we did get in the 2021 rate case. So I guess if you're looking at year-to-date, I'd consider the fact that we did record the $64 million in Q1 of 2024 that will impact the entire year. But as far as the quarter goes, there was really nothing that was unique to the quarter.

JONATHAN REEDER: OK. That's helpful. And then along those lines, can you just help me understand what's included in the buckets on the Q2 like EPS bridge slide. Specifically, like the 2021 GRC bucket versus the rate increase bucket, where did the new mechanisms-- having the new mechanisms fall versus just the '23 base rate increase over that interim that you're talking about versus the '24 attrition increase. Where do each of those fall in those two different bars?

JAMES LYNCH: So looking at the diluted earnings per share bridge, the Q2 2023 to Q2 2024 bridge, if you take a look at the general rate case, bucket or bar, that really relates to the impact of the new rate structure and the new rates that we implemented in 2023-- I'm sorry, in 2024 as it relates specifically to the 2021 rate case.

The rate increases column or bar, if you will, that really relates to increases that we've had for water offsets, for advice letter filings, and for the delta, the change in our cost of capital mechanism. So that really captures rates outside of the new rate design and outside of the new rate structure of the 2021 rate case.

And then the change in accrued revenue there, that's principally a result of the change that we had in our unbilled revenue, both in the number of days and the rate impact from the 2021 general rate case.

JONATHAN REEDER: OK. So the $0.26 from the rate increase, does that include the '24 attrition increase related to the 2021 GRC?

JAMES LYNCH: No, that would-- I believe, that's also captured-- let me get back to you on that, Jonathan. But I believe that's also captured in the 2021 general rate case. I think that that captures all of the impact of the rate changes from the rate case.

JONATHAN REEDER: OK. You think the $0.23 has the attrition?

JAMES LYNCH: I think so, yes.

JONATHAN REEDER: OK. And then on that change in accrued revenues, does that pull forward earnings from Q3, then?

JAMES LYNCH: No, that represents, principally, what we have already delivered in terms of water service but have not yet billed our customers. So we record that revenue as an unbilled amount at the end of the quarter. We'll have a similar amount that we will bill at the end of Q3.

And if there is a delta between the two of them, then we would certainly take that into consideration in terms of what the net impact is on the change in the unbilled revenue. The fact that there's days involved in the Q2 number would imply that, potentially, there will be less in the unbilled amount going into Q3, but it's not going to be meaningful.

MARTY KROPELNICKI: Yeah. Jim, I probably asked you, and I don't know this for certain about the numbers currently, but it's been a warm summer.

JAMES LYNCH: It's been a very warm summer. And, yeah, to Marty's point, especially if you take a look at the end of the quarter, the last couple of weeks of July-- I'm sorry, the last couple of weeks of June were very warm across all of our service territories, especially in California, but across all of our service territories, and we actually saw that in the first month of the Q3.

So I think you'll see some of that-- if you're just focused on the number of days, that difference is going to be mitigated significantly by the weather and I think by usage and rates. I don't think it's going to have a meaningful impact.

JONATHAN REEDER: OK. And then, yeah, last question you just segued to it with usage. Given the loss of decoupling and the warm summer and everything, how has the usage been tracking versus what the rate case assumed?

JAMES LYNCH: Well, I think that's a great question. Right now, we're tracking about 2% ahead of where we were at this time last year. And that's principally driven by the fact that the first quarter of last year was very wet and rainy, and the first quarter of this year, we experienced more normal conditions.

We still had a very good level of precipitation in the first quarter, but not to the same extent we did in the prior year. And then we had a really good July. So we're tracking-- or June rather, the second quarter. So we're tracking pretty well in terms of our usage going into Q3.

As it relates-- I haven't gone back and checked to see how it relates in terms of the rate case, I can get back to you on that. But I think we were probably around 96% or right thereabouts, but I'll get the exact number for you and can circle back with you on that.

JONATHAN REEDER: OK. That 96% might be on a year-to-date basis?

JAMES LYNCH: Yeah. That's a year-to-date, yeah.

JONATHAN REEDER: All right. Thanks so much for the time this morning, guys. Congrats on a great quarter.

MARTY KROPELNICKI: Thank you.

MODERATOR: Again, if you would like to ask a question, please press Star-1 on your telephone and wait for your name to be announced. Again, it is Star-1 to ask a question.

There's no more question at this time. I will now turn the conference back over to Martin Kropelnicki, Chairman, President, and Chief Executive Officer for closing remarks.

MARTY KROPELNICKI: Great. Thank you, D. Thanks, everyone, for joining us here today. As we move into Q3, again, it's going to be the busiest quarter for us operationally. It's usually our quarter that we experience peak demand in terms of the services and the products that we provide.

Look forward to giving you an update on Q3 and meaningful progress we're making on our infrastructure improvement plans and also progress that we make on our PFAS, PFOE implementation plans. And really keep an eye on fire season. As I mentioned, so far, this has been a really busy fire season. I don't know what the future holds. I don't have a crystal ball, but I will tell you, it has been very busy from a fire season perspective so far this year.

So we'll look forward to giving everyone a detailed update in Q3. And until then, please be safe, and we'll talk to everyone again real soon. Thank you for joining us here today. Thanks.

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