UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number: 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**51-0063696**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Water Street, Camden, NJ 08102-1658
(Address of principal executive offices) (Zip Code)

(856) 955-4001
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, par value $0.01 per share	**AWK**	**New York Stock Exchange**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding as of October 23, 2023
Common Stock, par value $0.01 per share	**194,704,997**

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Throughout this Quarterly Report on Form 10-Q ("Form 10-Q"), unless the context otherwise requires, references to the "Company" and "American Water" mean American Water Works Company, Inc. and all of its subsidiaries, taken together as a whole. References to the "parent company" mean American Water Works Company, Inc., without its subsidiaries.

The Company maintains a website at https://amwater.com, an Investor Relations website at https://ir.amwater.com, and a Diversity and Inclusion website at https://diversityataw.com. Information contained on the Company's websites, including its Sustainability Report, its Inclusion, Diversity and Equity Report, and other reports or documents, shall not be deemed incorporated into, or to be a part of, this report, and any website references included herein are not intended to be made through active hyperlinks.

FORWARD-LOOKING STATEMENTS

Statements included in Part I, Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as "intend," "plan," "estimate," "believe," "anticipate," "expect," "predict," "project," "propose," "assume," "forecast," "likely," "uncertain," "outlook," "future," "pending," "goal," "objective," "potential," "continue," "seek to," "may," "can," "should," "will" and "could" or the negative of such terms or other variations or similar expressions. Forward-looking statements may relate to, among other things: the Company's future financial performance, liquidity and cash flows; the timing and amount of rate and revenue adjustments, including through general rate case filings, filings for infrastructure surcharges and other governmental agency authorizations and proceedings, and filings to address regulatory lag; the Company's growth and portfolio optimization strategies, including the timing and outcome of pending or future acquisition activity; the ability of the Company's California subsidiary to obtain adequate alternative water supplies in lieu of diversions from the Carmel River; the amount and allocation of projected capital expenditures and related funding requirements; the Company's ability to repay or refinance debt; the future impacts of increased or increasing financing costs, inflation and interest rates; the Company's ability to execute its current and long-term business, operational and capital expenditures strategies; the Company's ability to finance current operations, capital expenditures and growth initiatives by accessing the debt and equity capital markets; the outcome and impact on the Company of governmental and regulatory proceedings and related potential fines, penalties and other sanctions; the ability to meet or exceed the Company's stated environmental and sustainability goals, including its greenhouse gas ("GHG") emission reduction, water delivery efficiency and water system resiliency goals; the ability to complete, and the timing and efficacy of, the design, development, implementation and improvement of technology and other strategic initiatives; the ability to capitalize on existing or future utility privatization opportunities; trends in the water and wastewater industries in which the Company operates, including macro trends with respect to the Company's efforts related to customer, technology and work execution; regulatory, legislative, tax policy or legal developments; and impacts that future significant tax legislation may have on the Company and on its business, results of operations, cash flows and liquidity.

Forward-looking statements are predictions based on the Company's current expectations and assumptions regarding future events. They are not guarantees or assurances of any outcomes, financial results, levels of activity, performance or achievements, and readers are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of estimates, assumptions, known and unknown risks, uncertainties and other factors. The Company's actual results may vary materially from those discussed in the forward-looking statements included herein as a result of the following important factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower customer rates;
- the timeliness and outcome of regulatory commissions' and other authorities' actions concerning rates, capital structure, authorized return on equity, capital investment, system acquisitions and dispositions, taxes, permitting, water supply and management, and other decisions;
- changes in customer demand for, and patterns of use of, water and energy, such as may result from conservation efforts, or otherwise;
- limitations on the availability of the Company's water supplies or sources of water, or restrictions on its use thereof, resulting from allocation rights, governmental or regulatory requirements and restrictions, drought, overuse or other factors;
- a loss of one or more large industrial or commercial customers due to adverse economic conditions or other factors;
- changes in laws, governmental regulations and policies, including with respect to the environment, health and safety, data and consumer privacy, security and protection, water quality and water quality accountability, contaminants of emerging concern, public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections and changes in federal, state and local executive administrations;
- the Company's ability to collect, distribute, use, secure and store consumer data in compliance with current or future governmental laws, regulations and policies with respect to data and consumer privacy, security and protection;
- weather conditions and events, climate variability patterns, and natural disasters, including drought or abnormally high rainfall, prolonged and abnormal ice or freezing conditions, strong winds, coastal and intercoastal flooding, pandemics (including COVID-19) and epidemics, earthquakes, landslides, hurricanes, tornadoes, wildfires, electrical storms, sinkholes and solar flares;
- the outcome of litigation and similar governmental and regulatory proceedings, investigations or actions;
- the risks associated with the Company's aging infrastructure, and its ability to appropriately improve the resiliency of or maintain, update, redesign and/or replace, current or future infrastructure and systems, including its technology and other assets, and manage the expansion of its businesses;

- exposure or infiltration of the Company's technology and critical infrastructure systems, including the disclosure of sensitive, personal or confidential information contained therein, through physical or cyber attacks or other means;
- the Company's ability to obtain permits and other approvals for projects and construction, update, redesign and/or replacement of various water and wastewater facilities;
- changes in the Company's capital requirements;
- the Company's ability to control operating expenses and to achieve operating efficiencies;
- the intentional or unintentional actions of a third party, including contamination of the Company's water supplies or the water provided to its customers;
- the Company's ability to obtain and have delivered adequate and cost-effective supplies of pipe, equipment (including personal protective equipment), chemicals, power and other fuel, water and other raw materials, and to address or mitigate supply chain constraints that may result in delays or shortages in, as well as increased costs of, supplies, products and materials that are critical to or used in the Company's business operations;
- the Company's ability to successfully meet its operational growth projections, either individually or in the aggregate, and capitalize on growth opportunities, including, among other things, with respect to:
  - acquiring, closing and successfully integrating regulated operations;
  - the Company's Military Services Group ("MSG") entering into new military installation contracts, price redeterminations, and other agreements and contracts with the U.S. government; and
  - realizing anticipated benefits and synergies from new acquisitions;
- risks and uncertainties following the completion of the sale of the Company's Homeowner Services Group ("HOS"), including:
  - the Company's ability to receive any contingent consideration provided for in the HOS sale, as well as amounts due, payable and owing to the Company under the seller note when due; and
  - the ability of the Company to redeploy successfully and timely the net proceeds of this transaction into the Company's Regulated Businesses;
- risks and uncertainties associated with contracting with the U.S. government, including ongoing compliance with applicable government procurement and security regulations;
- cost overruns relating to improvements in or the expansion of the Company's operations;
- the Company's ability to successfully develop and implement new technologies and to protect related intellectual property;
- the Company's ability to maintain safe work sites;
- the Company's exposure to liabilities related to environmental laws and similar matters resulting from, among other things, water and wastewater service provided to customers;
- the ability of energy providers, state governments and other third parties to achieve or fulfill their GHG emission reduction goals, including without limitation through stated renewable portfolio standards and carbon transition plans;
- changes in general economic, political, business and financial market conditions;
- access to sufficient debt and/or equity capital on satisfactory terms and as needed to support operations and capital expenditures;
- fluctuations in inflation or interest rates, and the Company's ability to address or mitigate the impacts thereof;
- the ability to comply with affirmative or negative covenants in the current or future indebtedness of the Company or any of its subsidiaries, or the issuance of new or modified credit ratings or outlooks by credit rating agencies with respect to the Company or any of its subsidiaries (or any current or future indebtedness thereof), which could increase financing costs or funding requirements and affect the Company's or its subsidiaries' ability to issue, repay or redeem debt, pay dividends or make distributions;
- fluctuations in the value of, or assumptions and estimates related to, its benefit plan assets and liabilities, including with respect to its pension and other post-retirement benefit plans, that could increase expenses and plan funding requirements;
- changes in federal or state general, income and other tax laws, including (i) future significant tax legislation or regulations, and (ii) the availability of, or the Company's compliance with, the terms of applicable tax credits and tax abatement programs;
- migration of customers into or out of the Company's service territories and changes in water and energy consumption resulting therefrom;

- the use by municipalities of the power of eminent domain or other authority to condemn the systems of one or more of the Company's utility subsidiaries, including without limitation potential proceedings with respect to the water system assets of the Company's California subsidiary ("Cal Am") located in Monterey, California (the "Monterey system assets"), or the assertion by private landowners of similar rights against such utility subsidiaries;
- any difficulty or inability to obtain insurance for the Company, its inability to obtain insurance at acceptable rates and on acceptable terms and conditions, or its inability to obtain reimbursement under existing or future insurance programs and coverages for any losses sustained;
- the incurrence of impairment charges, changes in fair value and other adjustments related to the Company's goodwill or the value of its other assets;
- labor actions, including work stoppages and strikes;
- the Company's ability to retain and attract highly qualified and skilled employees and/or diverse talent;
- civil disturbances or unrest, or terrorist threats or acts, or public apprehension about future disturbances, unrest, or terrorist threats or acts; and
- the impact of new, and changes to existing, accounting standards.

These forward-looking statements are qualified by, and should be read together with, the risks and uncertainties set forth above, and the risk factors and other statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "Form 10-K") and in this Form 10-Q, and readers should refer to such risks, uncertainties and risk factors in evaluating such forward-looking statements. Any forward-looking statements the Company makes shall speak only as of the date this Form 10-Q was filed with the U.S. Securities and Exchange Commission ("SEC"). Except as required by the federal securities laws, the Company does not have any obligation, and it specifically disclaims any undertaking or intention, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise. New factors emerge from time to time, and it is not possible for the Company to predict all such factors. Furthermore, it may not be possible to assess the impact of any such factor on the Company's businesses, either viewed independently or together, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	September 30, 2023	December 31, 2022
ASSETS		
Property, plant and equipment	$ 31,397	$ 29,736
Accumulated depreciation	(6,709)	(6,513)
Property, plant and equipment, net	24,688	23,223
Current assets:		
Cash and cash equivalents	628	85
Restricted funds	33	32
Accounts receivable, net of allowance for uncollectible accounts of $ 53 and $60, respectively	382	334
Income tax receivable	54	114
Unbilled revenues	318	275
Materials and supplies	111	98
Other	278	312
Total current assets	1,804	1,250
Regulatory and other long-term assets:		
Regulatory assets	1,039	990
Seller promissory note from the sale of the Homeowner Services Group	720	720
Operating lease right-of-use assets	86	82
Goodwill	1,143	1,143
Other	338	379
Total regulatory and other long-term assets	3,326	3,314
Total assets	$ 29,818	$ 27,787

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	September 30, 2023	December 31, 2022
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock ($0.01 par value; 500,000,000 shares authorized; 200,119,751 and 187,200,539 shares issued, respectively)	$ 2	$ 2
Paid-in-capital	8,541	6,824
Retained earnings	1,764	1,267
Accumulated other comprehensive loss	(22)	(23)
Treasury stock, at cost (5,414,867 and 5,342,477 shares, respectively)	(388)	(377)
Total common shareholders' equity	9,897	7,693
Long-term debt	11,698	10,926
Redeemable preferred stock at redemption value	3	3
Total long-term debt	11,701	10,929
Total capitalization	21,598	18,622
Current liabilities:		
Short-term debt	—	1,175
Current portion of long-term debt	492	281
Accounts payable	228	254
Accrued liabilities	605	706
Accrued taxes	82	49
Accrued interest	124	91
Other	212	255
Total current liabilities	1,743	2,811
Regulatory and other long-term liabilities:		
Advances for construction	340	316
Deferred income taxes and investment tax credits	2,632	2,437
Regulatory liabilities	1,478	1,590
Operating lease liabilities	74	70
Accrued pension expense	201	235
Other	213	202
Total regulatory and other long-term liabilities	4,938	4,850
Contributions in aid of construction	1,539	1,504
Commitments and contingencies (See Note 11)		
Total capitalization and liabilities	$ 29,818	$ 27,787

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Operations (Unaudited)
(In millions, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating revenues	$ 1,167	$ 1,082	$ 3,202	$ 2,861
Operating expenses:				
Operation and maintenance	436	416	1,248	1,156
Depreciation and amortization	177	164	523	485
General taxes	76	63	227	208
Other	—	—	(1)	—
Total operating expenses, net	689	643	1,997	1,849
Operating income	478	439	1,205	1,012
Other (expense) income:				
Interest expense	(117)	(111)	(342)	(317)
Interest income	23	14	52	39
Non-operating benefit costs, net	9	19	26	58
Other, net	14	6	37	38
Total other (expense) income	(71)	(72)	(227)	(182)
Income before income taxes	407	367	978	830
Provision for income taxes	84	70	205	157
Net income attributable to common shareholders	$ 323	$ 297	$ 773	$ 673
Basic earnings per share:				
Net income attributable to common shareholders	$ 1.66	$ 1.63	$ 4.03	$ 3.70
Diluted earnings per share:				
Net income attributable to common shareholders	$ 1.66	$ 1.63	$ 4.03	$ 3.70
Weighted-average common shares outstanding:				
Basic	195	182	192	182
Diluted	195	182	192	182

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Comprehensive Income (Unaudited)
(In millions)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income attributable to common shareholders	$ 323	$ 297	$ 773	$ 673
Other comprehensive income, net of tax:				
Defined benefit pension plan actuarial loss, net of tax of $ 0 and $1 for the three months ended September 30, 2023 and 2022, respectively and $0 and $1 for the nine months ended September 30, 2023 and 2022, respectively	1	—	1	2
Unrealized gain on cash flow hedges, net of tax of $ 0 for the three months ended September 30, 2023 and 2022, and $0 and $1 for the nine months ended September 30, 2023 and 2022, respectively	—	1	—	4
Unrealized (loss) gain on available-for-sale fixed-income securities, net of tax of $0 for the three months ended September 30, 2023 and 2022, and $0 for the nine months ended September 30, 2023 and 2022	(1)	—	—	—
Net other comprehensive income	—	1	1	6
Comprehensive income attributable to common shareholders	$ 323	$ 298	$ 774	$ 679

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows (Unaudited)
(In millions)

	For the Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 773	$ 673
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	523	485
Deferred income taxes and amortization of investment tax credits	129	13
Provision for losses on accounts receivable	17	17
Pension and non-pension postretirement benefits	(2)	(37)
Other non-cash, net	(28)	(31)
Changes in assets and liabilities:		
Receivables and unbilled revenues	(109)	(129)
Income tax receivable	60	(40)
Pension and non-pension postretirement benefit contributions	(34)	(40)
Accounts payable and accrued liabilities	18	(9)
Accrued taxes	37	(108)
Other assets and liabilities, net	(37)	(30)
Net cash provided by operating activities	1,347	764
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(1,779)	(1,597)
Acquisitions, net of cash acquired	(36)	(288)
Net proceeds from sale of assets	—	608
Removal costs from property, plant and equipment retirements, net	(113)	(85)
Net cash used in investing activities	(1,928)	(1,362)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	1,246	822
Repayments of long-term debt	(263)	(14)
Net proceeds from common stock financing	1,688	—
Net short-term repayments with maturities less than three months	(1,175)	50
Advances and contributions in aid of construction, net of refunds of $ 21 and $13 for the nine months ended September 30, 2023 and 2022, respectively	40	64
Debt issuance costs and make-whole premium on early debt redemption	(15)	(7)
Dividends paid	(395)	(348)
Other, net	(1)	(1)
Net cash provided by financing activities	1,125	566
Net increase (decrease) in cash, cash equivalents and restricted funds	544	(32)
Cash, cash equivalents and restricted funds at beginning of period	117	136
Cash, cash equivalents and restricted funds at end of period	$ 661	$ 104
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid as of the end of period	$ 348	$ 347

The accompanying notes are an integral part of these Consolidated Financial Statements.

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American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(In millions)

	Common Stock		Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Par Value				Shares	At Cost	
Balance as of December 31, 2022	187.4	$ 2	$ 6,824	$ 1,267	$ (23)	(5.4)	$ (377)	$ 7,693
Net income attributable to common shareholders	—	—	—	170	—	—	—	170
Common stock issuances (a)	12.7	—	1,695	—	—	—	(11)	1,684
Net other comprehensive income	—	—	—	—	—	—	—	—
Balance as of March 31, 2023	200.1	$ 2	$ 8,519	$ 1,437	$ (23)	(5.4)	$ (388)	$ 9,547
Net income attributable to common shareholders	—	—	—	280	—	—	—	280
Common stock issuances (a)	—	—	10	—	—	—	—	10
Net other comprehensive income	—	—	—	—	1	—	—	1
Dividends ($0.7075 declared per common share)	—	—	—	(137)	—	—	—	(137)
Balance as of June 30, 2023	200.1	$ 2	$ 8,529	$ 1,580	$ (22)	(5.4)	$ (388)	$ 9,701
Net income attributable to common shareholders	—	—	—	323	—	—	—	323
Common stock issuances (a)	—	—	12	—	—	—	—	12
Net other comprehensive income	—	—	—	—	—	—	—	—
Dividends ($0.7075 declared per common share)	—	—	—	(139)	—	—	—	(139)
Balance as of September 30, 2023	200.1	$ 2	$ 8,541	$ 1,764	$ (22)	(5.4)	$ (388)	$ 9,897

(a) Includes stock-based compensation, employee stock purchase plan and dividend reinvestment and direct stock purchase plan activity.

	Common Stock		Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Par Value				Shares	At Cost	
Balance as of December 31, 2021	186.9	$ 2	$ 6,781	$ 925	$ (45)	(5.3)	$ (365)	$ 7,298
Net income attributable to common shareholders	—	—	—	158	—	—	—	158
Common stock issuances (a)	0.2	—	15	—	—	—	(12)	3
Net other comprehensive income	—	—	—	—	1	—	—	1
Balance as of March 31, 2022	187.1	$ 2	$ 6,796	$ 1,083	$ (44)	(5.3)	$ (377)	$ 7,460
Net income attributable to common shareholders	—	—	—	218	—	—	—	218
Common stock issuances (a)	—	—	8	—	—	—	—	8
Net other comprehensive income	—	—	—	—	4	—	—	4
Dividends ($0.6550 declared per common share)	—	—	—	(120)	—	—	—	(120)
Balance as of June 30, 2022	187.1	$ 2	$ 6,804	$ 1,181	$ (40)	(5.3)	$ (377)	$ 7,570
Net income attributable to common shareholders	—	—	—	297	—	—	—	297
Common stock issuances (a)	0.1	—	9	—	—	—	—	9
Net other comprehensive income	—	—	—	—	1	—	—	1
Dividends ($0.6550 declared per common share)	—	—	—	(119)	—	—	—	(119)
Balance as of September 30, 2022	187.2	$ 2	$ 6,813	$ 1,359	$ (39)	(5.3)	$ (377)	$ 7,758

(a) Includes stock-based compensation, employee stock purchase plan and dividend reinvestment and direct stock purchase plan activity.

The accompanying notes are an integral part of these Consolidated Financial Statements.

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(Unless otherwise noted, in millions, except per share data)

Note 1: Basis of Presentation

The unaudited Consolidated Financial Statements included in this report include the accounts of American Water Works Company, Inc. and all of its subsidiaries (the “Company” or “American Water”), in which a controlling interest is maintained after the elimination of intercompany balances and transactions. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial reporting, and the rules and regulations for reporting on Quarterly Reports on Form 10-Q (“Form 10-Q”). Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position as of September 30, 2023, and the results of operations and cash flows for all periods presented, have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

The unaudited Consolidated Financial Statements and Notes included in this report should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (“Form 10-K”), which provides a more complete discussion of the Company’s accounting policies, financial position, operating results and other matters. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, primarily due to the seasonality of the Company’s operations.

Note 2: Significant Accounting Policies

New Accounting Standards

Presented in the table below are new accounting standards that were adopted by the Company in 2023:

Standard	Description	Date of Adoption	Application	Effect on the Consolidated Financial Statements
Accounting for Contract Assets and Contract Liabilities from Contracts with Customers	The guidance requires an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Accounting Standards Codification Topic 606, as if it had originated the contracts. The amendments in this update also provide certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination.	January 1, 2023	Prospective	This standard did not have a material impact on the Consolidated Financial Statements
Troubled Debt Restructurings and Vintage Disclosures	The main provisions of this standard eliminate the receivables accounting guidance for troubled debt restructurings (“TDRs”) by creditors while enhancing disclosure requirements when a borrower is experiencing financial difficulty. Entities must apply the loan refinancing and restructuring guidance for receivables to determine whether a modification results in a new loan or a continuation of an existing loan. Additionally, the amendments in this update require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases.	January 1, 2023	Prospective, with a modified retrospective option for amendments related to the recognition and measurement of TDRs.	This standard did not have a material impact on the Consolidated Financial Statements
Presentation and Disclosure Requirements	The guidance amends GAAP disclosure and presentation requirements for various subtopics in the Financial Accounting Standards Board Codification and was issued in response to the U.S. Securities and Exchange Commission’s (“SEC”) final rule published in August 2018 that updated and simplified disclosure requirements that it believed were outdated, superseded, overlapping, duplicative and redundant. The new guidance is intended to align GAAP requirements with those of the SEC for all entities.	The date on which the SEC’s removal of the related disclosure requirement became effective	Prospective	This standard did not have a material impact on the Consolidated Financial Statements

Property, Plant and Equipment

The New Jersey Economic Development Authority (“NJEDA”) determined that the Company was qualified to receive $ 161 million in tax credits in connection with its capital investment in its corporate headquarters in Camden, New Jersey. The Company was qualified to receive the tax credits over a 10-year period commencing in 2019.

In March 2023, the NJEDA issued the utilization certificate for the 2020 tax credits to the Company in the amount of $ 16 million. The Company sold these tax credits to external parties in March 2023 for $15 million. As of September 30, 2023 and December 31, 2022, the Company had $ 32 million and $48 million, respectively, in Other current assets and $ 97 million in Other long-term assets on the Consolidated Balance Sheets as a result of these tax credits. The Company has made the necessary annual filing for the years ended December 31, 2021 and 2022.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due, previous loss history, current economic and societal conditions and reasonable and supportable forecasts that affect the collectability of receivables from customers. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding.

Presented in the table below are the changes in the allowance for uncollectible accounts for the nine months ended September 30:

	2023	2022
Balance as of January 1	$ (60)	$ (75)
Amounts charged to expense	(17)	(17)
Amounts written off	20	19
Other, net (a)	4	9
Balance as of September 30	$ (53)	$ (64)

(a) This portion of the allowance for uncollectible accounts is primarily related to COVID-19 related regulatory asset activity.

Reclassifications

Certain reclassifications have been made to prior periods in the Consolidated Financial Statements and Notes to conform to the current presentation.

Note 3: Regulatory Matters

General Rate Cases

Presented in the table below are annualized incremental revenues, including reductions for the amortization of the excess accumulated deferred income taxes ("EADIT") that are generally offset in income tax expense, assuming a constant sales volume and customer count, resulting from general rate case authorizations that became effective during 2023:

(In millions)	Effective Date	Amount
General rate cases by state:		
Missouri	May 28, 2023	$ 44
Virginia	April 24, 2023 (a)	11
Pennsylvania	January 28, 2023	138
Illinois	January 1, 2023	67
California, Step Increase	January 1, 2023	13
Total general rate case authorizations		$ 273

(a) Interim rates were effective May 1, 2022, and the difference between interim and final approved rates were subject to refund. The Virginia State Corporation Commission issued its final Order on April 24, 2023.

On June 29, 2023, the California Public Utilities Commission ("CPUC") issued a decision on the cost of capital application for the Company's California subsidiary, which authorizes a return on equity of 8.98% and a capital structure with an equity component of 57.04% for the three-year period from 2022 to 2024. The CPUC's decision is not retroactive and was effective from the date of the order through the end of 2024. The decision includes a Water Cost of Capital Mechanism (the "WCCM") that would allow the California subsidiary to increase its return on equity for the remainder of 2023 and 2024 based on capital market rates. As authorized by the WCCM, on June 30, 2023, the California subsidiary filed with the CPUC staff an advice letter to seek a 52 basis point increase to the return on equity for 2023, which was approved on July 25, 2023, increasing the return on equity to 9.50%, effective July 31, 2023. On October 16, 2023, the California subsidiary filed with the CPUC staff an advice letter to implement a 70 basis point increase to the return on equity, effective January 1, 2024, based on the triggering of the WCCM. After approval, the authorized return on equity will increase to 10.20%.

On May 3, 2023, the Missouri Public Service Commission issued an order approving the March 3, 2023, joint settlement agreement in the general rate case filed on July 1, 2022, by the Company's Missouri subsidiary. The general rate case order approved a $44 million annualized increase in water and wastewater revenues, excluding $51 million in previously approved infrastructure surcharges, and authorized implementation of the new water and wastewater rates effective May 28, 2023. The annualized revenue increase is driven primarily by significant incremental capital investments since the Missouri subsidiary's 2021 rate case order. The Missouri subsidiary's view of its rate base is $2.3 billion, and its view as to its return on equity and long-term debt ratio (each of which is based on the general rate case order but was not disclosed therein) is 9.75% and 50.0%, respectively.

On April 24, 2023, the Virginia State Corporation Commission issued an order approving the settlement of the rate case filed on September 26, 2022, by the Company's Virginia subsidiary. The general rate case order approved an $11 million annualized increase in water and wastewater revenues. Interim rates in this proceeding were effective on May 1, 2022, and the order required that the difference between interim and the final approved rates were subject to refund within 90 days of the order issuance. The order approves the settlement terms with a return on equity of 9.7% and a common equity ratio of 40.7%. The annualized revenue increase is driven primarily by significant incremental capital investments since the Virginia subsidiary's 2020 rate case order that have been completed or were planned through April 30, 2023, increases in pension and other postretirement benefits expense and increases in production costs, including chemicals, fuel and power costs. The general rate case order includes recovery of the Virginia subsidiary's COVID-19 deferral balance. It also includes approval of the accounting deferral of deviations in pension and other postretirement benefits expense from those established in base rates, until the Virginia subsidiary's next base rate case.

On December 8, 2022, the Pennsylvania Public Utility Commission issued an order approving the joint settlement agreement in the rate case filed on April 29, 2022, by the Company's Pennsylvania subsidiary. The general rate case order approved a $138 million annualized increase in water and wastewater revenues, excluding $24 million for previously approved infrastructure filings, and authorizes implementation of the new water and wastewater rates effective January 28, 2023. The annualized revenue increase is driven primarily by significant incremental capital investments since the Pennsylvania subsidiary's 2021 rate case order that will be completed through December 31, 2023, increases in pension and other postretirement benefits expense and increases in production costs, including chemicals, fuel and power costs. The general rate case order also includes recovery of the Pennsylvania subsidiary's COVID-19 deferral balance. The Pennsylvania subsidiary's view of its rate base is $5.1 billion, and its view as to its return on equity and long-term debt ratio (each of which is based on the general rate case order but was not disclosed therein) is 10.0% and 44.8%, respectively.

On December 15, 2022, the Illinois Commerce Commission issued an order approving the adjustment of base rates requested in a rate case filed on February 10, 2022, by the Company's Illinois subsidiary. As updated in the Illinois subsidiary's June 29, 2022 rebuttal filing, the request sought $83 million in additional annualized revenues, excluding previously recovered infrastructure surcharges. The general rate case order approved a $67 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $18 million, effective January 1, 2023, based on an authorized return on equity of 9.78%, authorized rate base of $1.64 billion, a common equity ratio of 49.0% and a debt ratio of 51.0%. The annualized revenue increase is being driven primarily by significant water and wastewater system capital investments since the Illinois subsidiary's 2017 rate case order that have been completed or are planned through December 31, 2023, expected higher pension and other postretirement benefit costs, and increases in production costs, including chemicals, fuel and power costs.

Pending General Rate Case Filings

On November 1, 2023, the Company's Virginia subsidiary filed a general rate case requesting $20 million in additional annualized revenues. Interim rates will be effective May 1, 2024, with the difference between interim and final approved rates subject to refund.

On June 30, 2023, the Company's Kentucky subsidiary filed a general rate case requesting $26 million in additional annualized revenues, excluding infrastructure surcharges of $10 million. An order is expected in the general rate case by the end of the first quarter of 2024.

On May 1, 2023, the Company's West Virginia subsidiary filed a general rate case requesting $45 million in additional annualized revenues, excluding previously approved infrastructure surcharges of $7 million. The general rate case includes a future test year capturing planned investment through 2025 and an order is expected to be issued by February 25, 2024. On June 30, 2023, the West Virginia subsidiary filed its annual infrastructure surcharge requesting $8 million in additional annualized revenues for planned investment through 2024. The infrastructure surcharge will be aligned with the investments recognized in the general rate case if the future test year is approved.

On March 31, 2023, the Company's Indiana subsidiary filed a general rate case requesting $ 87 million in additional annualized revenues, excluding $41 million of revenue from infrastructure filings already approved, which includes three step increases, with $ 43 million of the increase to be included in rates in January 2024, $18 million in May 2024, and $ 26 million in May 2025. Hearings were completed in September and an order is expected in the general rate case by the end of January 2024.

On July 1, 2022, the Company's California subsidiary filed a general rate case requesting an increase in 2024 revenue of $ 56 million and a total increase in revenue over the 2024 to 2026 period of $95 million, all as compared to 2022 revenues. The Company updated its filing in January 2023 to capture the authorized step increase effective January 1, 2023. The filing was also updated to incorporate a decoupling proposal and a revision to the Company's sales and associated variable expense forecast. The revised filing requested additional annualized revenues for the test year 2024 of $37 million, compared to 2023 revenues. This excludes the proposed step rate and attrition rate increase for 2025 and 2026 of $20 million and $ 19 million, respectively. The total revenue requirement request for the three-year rate case cycle, incorporating updates to present rate revenues and forecasted demand, is $76 million. In October 2023, evidentiary hearings were held, and an order is expected in the general rate case in 2024 with rates retroactive to January 1, 2024.

Infrastructure Surcharges

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. Presented in the table below are annualized incremental revenues, assuming a constant water sales volume and customer count, resulting from infrastructure surcharge authorizations that became effective during 2023:

(In millions)	Effective Date	Amount
Infrastructure surcharges by state:		
New Jersey	(a)	$ 32
Kentucky	October 1, 2023	4
Indiana	(b)	26
Missouri	January 16, 2023	14
Pennsylvania	January 1, 2023	3
West Virginia	January 1, 2023	7
Total infrastructure surcharge authorizations		$ 86

(a) In 2023, $15 million was effective October 30, $1 million was effective June 29 and $16 million was effective April 29.

(b) In 2023, $20 million was effective March 23 and $6 million was effective March 8.

Pending Infrastructure Surcharge Filings

On September 1, 2023, the Company's Missouri subsidiary filed an infrastructure surcharge proceeding requesting $ 23 million in additional annualized revenues.

Other Regulatory Matters

In September 2020, the CPUC released a decision under its Low-Income Rate Payer Assistance program rulemaking that required the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would have become effective upon receiving an order in the current pending rate case. On October 5, 2020, the Company's California subsidiary filed an application for rehearing of the decision and following the CPUC's denial of its rehearing application in September 2021, the Company's California subsidiary filed a petition for writ of review with the California Supreme Court on October 27, 2021. On May 18, 2022, the California Supreme Court issued a writ of review for the California subsidiary's petition and the petitions filed by other entities challenging the decision. Independent of the judicial challenge, California passed Senate Bill 1469, which allows the CPUC to consider and authorize the implementation of a mechanism that separates the water corporation's revenue and its water sales. Legislation was signed by the Governor on September 30, 2022, and became effective on January 1, 2023. In response to the legislation, on January 27, 2023, the Company's California subsidiary filed an updated application requesting the CPUC to consider a Water Resources Sustainability Plan decoupling mechanism in its pending 2022 general rate case, which will become effective upon receiving an order in the current pending rate case.

On March 2, 2021, an administrative law judge ("ALJ") in the Office of Administrative Law of New Jersey filed an initial decision with the New Jersey Board of Public Utilities ("NJBPU") that recommended denial of a petition filed by the Company's New Jersey subsidiary, which sought approval of acquisition adjustments in rate base of $29 million associated with the acquisitions of Shorelands Water Company, Inc. in 2017 and the Borough of Haddonfield's water and wastewater systems in 2015. On July 29, 2021, the NJBPU issued an order adopting the ALJ's initial decision without modification. The Company's New Jersey subsidiary filed a Notice of Appeal with the New Jersey Appellate Division on September 10, 2021. The Company's New Jersey subsidiary filed its brief in support of the appeal on March 4, 2022. Response and Reply briefs were filed on June 22, 2022, and August 4, 2022, respectively. Oral argument was held on March 22, 2023, and the Company expects a decision by the end of 2023. There is no financial impact to the Company as a result of the NJBPU's order, since the acquisition adjustments are currently recorded as goodwill on the Consolidated Balance Sheets.

Note 4: Revenue Recognition

Disaggregated Revenues

The Company's primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the "Regulated Businesses." The Company also operates other businesses that provide water and wastewater services to the U.S. government on military installations, as well as municipalities, collectively presented throughout this Form 10-Q within "Other."

Presented in the table below are operating revenues disaggregated for the three months ended September 30, 2023:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 607	$ —	$ 607
Commercial	231	—	231
Fire service	40	—	40
Industrial	50	—	50
Public and other	77	—	77
Total water services	1,005	—	1,005
Wastewater services:			
Residential	58	—	58
Commercial	16	—	16
Industrial	2	—	2
Public and other	8	—	8
Total wastewater services	84	—	84
Miscellaneous utility charges	9	—	9
Alternative revenue programs	—	(5)	(5)
Lease contract revenue	—	2	2
Total Regulated Businesses	1,098	(3)	1,095
Other	72	—	72
Total operating revenues	$ 1,170	$ (3)	$ 1,167

(a) Includes revenues associated with alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers* ("ASC 606"), and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the three months ended September 30, 2022:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 556	$ 1	$ 557
Commercial	207	1	208
Fire service	36	—	36
Industrial	41	1	42
Public and other	82	—	82
Total water services	922	3	925
Wastewater services:			
Residential	45	1	46
Commercial	12	—	12
Industrial	1	—	1
Public and other	7	—	7
Total wastewater services	65	1	66
Miscellaneous utility charges	9	—	9
Alternative revenue programs	—	1	1
Lease contract revenue	—	2	2
Total Regulated Businesses	996	7	1,003
Other	80	(1)	79
Total operating revenues	$ 1,076	$ 6	$ 1,082

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the nine months ended September 30, 2023:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 1,622	$ —	$ 1,622
Commercial	600	—	600
Fire service	118	—	118
Industrial	126	—	126
Public and other	208	—	208
Total water services	2,674	—	2,674
Wastewater services:			
Residential	169	—	169
Commercial	46	—	46
Industrial	6	—	6
Public and other	21	—	21
Total wastewater services	242	—	242
Miscellaneous utility charges	26	—	26
Alternative revenue programs	—	12	12
Lease contract revenue	—	6	6
Total Regulated Businesses	2,942	18	2,960
Other	243	(1)	242
Total operating revenues	$ 3,185	$ 17	$ 3,202

(a) Includes revenues associated with alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers* ("ASC 606"), and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the nine months ended September 30, 2022:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 1,467	$ 2	$ 1,469
Commercial	534	1	535
Fire service	109	—	109
Industrial	115	1	116
Public and other	195	—	195
Total water services	2,420	4	2,424
Wastewater services:			
Residential	128	1	129
Commercial	33	—	33
Industrial	3	—	3
Public and other	14	—	14
Total wastewater services	178	1	179
Miscellaneous utility charges	27	—	27
Alternative revenue programs	—	10	10
Lease contract revenue	—	6	6
Total Regulated Businesses	2,625	21	2,646
Other	216	(1)	215
Total operating revenues	$ 2,841	$ 20	$ 2,861

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

Contract Balances

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings, and cash collections. In the Company's Military Services Group ("MSG"), certain contracts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Contract assets are recorded when billing occurs subsequent to revenue recognition and are reclassified to accounts receivable when billed and the right to consideration becomes unconditional. Contract liabilities are recorded when the Company receives advances from customers prior to satisfying contractual performance obligations, particularly for construction contracts, and are recognized as revenue when the associated performance obligations are satisfied.

Contract assets of $112 million and $86 million are included in unbilled revenues on the Consolidated Balance Sheets as of September 30, 2023 and December 31, 2022, respectively. Contract liabilities of $65 million and $91 million are included in other current liabilities on the Consolidated Balance Sheets as of September 30, 2023 and December 31, 2022, respectively. Revenues recognized for the nine months ended September 30, 2023 and 2022, from amounts included in contract liabilities were $92 million and $94 million, respectively.

Remaining Performance Obligations

Remaining performance obligations ("RPOs") represent revenues the Company expects to recognize in the future from contracts that are in progress. The Company enters into agreements for the provision of services to water and wastewater facilities for the U.S. military, municipalities and other customers. As of September 30, 2023, the Company's operation and maintenance ("O&M") and capital improvement contracts in the MSG and the Contract Services Group have RPOs. Contracts with the U.S. government for work on various military installations expire between 2051 and 2073 and have RPOs of $7.0 billion as of September 30, 2023, as measured by estimated remaining contract revenue. Such contracts are subject to customary termination provisions held by the U.S. government, prior to the agreed-upon contract expiration. Contracts with municipalities and commercial customers expire between 2026 and 2038 and have RPOs of $554 million as of September 30, 2023, as measured by estimated remaining contract revenue. Some of the Company's long-term contracts to operate and maintain the federal government's, a municipality's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Note 5: Acquisitions and Divestitures

Regulated Businesses

Closed Acquisitions

During the nine months ended September 30, 2023 , the Company closed on 14 acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $36 million, which added approximately 7,900 water and wastewater customers. This includes the Company's New Jersey subsidiary's acquisition of the water and wastewater assets of Egg Harbor City on June 1, 2023, for a cash purchase price of $22 million, $2 million of which was funded as a deposit to the seller in March 2021 in connection with the execution of the acquisition agreement. The Egg Harbor City acquisition was accounted for as a business combination and the assets acquired consisted primarily of $22 million of utility plant.

Pending Acquisitions

On April 6, 2023, the Company's Illinois subsidiary entered into an agreement to acquire the wastewater treatment plant from Granite City for an amended purchase price of $86 million. This plant provides wastewater service for approximately 26,000 customer connections. The Company expects to close this acquisition around year-end 2023, pending regulatory approval.

Effective March 24, 2023, the Company's Pennsylvania subsidiary acquired the rights to buy the wastewater system assets of the Township of Towamencin, for an aggregate purchase price of $104 million, subject to adjustment as provided in the asset purchase agreement. This system provides wastewater services to approximately 6,300 customer connections in seven townships in Montgomery County, Pennsylvania. The Company expects to close this acquisition in late 2024 or early 2025, pending final regulatory approval.

On October 11, 2022, the Company's Pennsylvania subsidiary entered into an agreement to acquire the wastewater assets of the Butler Area Sewer Authority for an amended purchase price of $230 million in cash, subject to adjustment as provided for in the asset purchase agreement. This system provides wastewater service for approximately 14,700 customer connections. The Company expects to close this acquisition by the end of 2023, pending regulatory approval.

Note 6: Shareholders' Equity

Common Stock Offering

On March 3, 2023, the Company completed an underwritten public offering of an aggregate of 12,650,000 shares of parent company common stock. Upon closing of this offering, the Company received, after deduction of the underwriting discount and before deduction of offering expenses, net proceeds of approximately $1,688 million. The Company used the net proceeds of the offering to repay short-term commercial paper obligations of American Water Capital Corp. ("AWCC"), the wholly owned finance subsidiary of parent company, and for general corporate purposes.

Accumulated Other Comprehensive Loss

Presented in the table below are the changes in accumulated other comprehensive loss by component, net of tax, for the nine months ended September 30, 2023 and 2022, respectively:

	Defined Benefit Pension Plans				
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss	Loss on Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as of December 31, 2022	$ (93)	$ 1	$ 70	$ (1)	$ (23)
Other comprehensive income before reclassifications	—	—	—	—	—
Amounts reclassified from accumulated other comprehensive loss	—	—	1	—	1
Net other comprehensive income	—	—	1	—	1
Balance as of September 30, 2023	$ (93)	$ 1	$ 71	$ (1)	$ (22)
Balance as of December 31, 2021	$ (107)	$ 1	$ 67	$ (6)	$ (45)
Other comprehensive income before reclassifications	—	—	—	4	4
Amounts reclassified from accumulated other comprehensive income	—	—	2	—	2
Net other comprehensive income	—	—	2	4	6
Balance as of September 30, 2022	$ (107)	$ 1	$ 69	$ (2)	$ (39)

The Company does not reclassify the amortization of defined benefit pension cost components from accumulated other comprehensive loss directly to net income in its entirety, as a portion of these costs have been deferred as a regulatory asset. These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

The amortization of the gain (loss) on cash flow hedges is reclassified to net income during the period incurred and is included in interest, net in the accompanying Consolidated Statements of Operations.

An unrealized gain (loss) on available-for-sale fixed-income securities is reclassified to net income upon sale of the securities as a realized gain or loss and is included in Other, net in the accompanying Consolidated Statements of Operations.

Dividends

On September 1, 2023, the Company paid a quarterly cash dividend of $ 0.7075 per share to shareholders of record as of August 8, 2023.

On October 31, 2023, the Company's Board of Directors declared a quarterly cash dividend payment of $ 0.7075 per share, payable on December 1, 2023, to shareholders of record as of November 14, 2023. Future dividends, when and as declared at the discretion of the Board of Directors, will be dependent upon future earnings and cash flows, compliance with various regulatory, financial and legal requirements, and other factors. See Note 9—Shareholders' Equity in the Notes to Consolidated Financial Statements in the Company's Form 10-K for additional information regarding the payment of dividends on the Company's common stock.

Note 7: Long-Term Debt

On June 29, 2023, AWCC issued $1,035 million aggregate principal amount of 3.625% Exchangeable Senior Notes due 2026 (the "Notes"). AWCC received net proceeds of approximately $1,022 million, after deduction of underwriting discounts and commissions but before deduction of offering expenses payable by AWCC. A portion of the net proceeds was used to repay AWCC's commercial paper obligations and the remainder is being used for general corporate purposes. The Notes are senior unsecured obligations of AWCC and have the benefit of a support agreement from parent company, which serves as the functional equivalent of a guarantee by parent company of the obligations of AWCC under the Notes. The Notes will mature on June 15, 2026 (the "Maturity Date"), unless earlier exchanged or repurchased.

The Notes are exchangeable at an initial exchange rate of 5.8213 shares of parent company's common stock per $1,000 principal amount of Notes (equivalent to an initial exchange price of approximately $171.78 per share of common stock). The initial exchange rate of the Notes is subject to adjustment as provided in the indenture pursuant to which the Notes were issued (the “Note Indenture”). Prior to the close of business on the business day immediately preceding March 15, 2026, the Notes are exchangeable at the option of the noteholders only upon the satisfaction of specified conditions and during certain periods described in the Note Indenture. On or after March 15, 2026, until the close of business on the business day immediately preceding the Maturity Date, the Notes will be exchangeable at the option of the noteholders at any time regardless of these conditions or periods. Upon any exchange of the Notes, AWCC will (1) pay cash up to the aggregate principal amount of the Notes and (2) pay or deliver (or cause to be delivered), as the case may be, cash, shares of parent company's common stock, or a combination of cash and shares of such common stock, at AWCC's election, in respect of the remainder, if any, of AWCC’s exchange obligation in excess of the aggregate principal amount of the Notes being exchanged.

AWCC may not redeem the Notes prior to the Maturity Date, and no sinking fund is provided for the Notes. Subject to certain conditions, holders of the Notes will have the right to require AWCC to repurchase all or a portion of their Notes upon the occurrence of a fundamental change, as defined in the Note Indenture, at a repurchase price of 100% of their principal amount plus any accrued and unpaid interest.

In addition to the Notes issued by AWCC as described above, during the nine months ended September 30, 2023, AWCC and the Company’s regulated subsidiaries issued in the aggregate $211 million of private activity bonds and government funded debt in multiple transactions, with annual interest rates ranging from 0.00% to 3.88%, a weighted average interest rate of 3.50%, and maturity dates ranging from 2025 to 2041. During the nine months ended September 30, 2023, $125 million of the $211 million of private activity bonds and government funded debt issued by AWCC and the Company's regulated subsidiaries were collateralized. During the nine months ended September 30, 2023, AWCC and the Company’s regulated subsidiaries made sinking fund payments for, or repaid at maturity, $263 million in aggregate principal amount of outstanding long-term debt, with annual interest rates ranging from 0.00% to 6.55%, a weighted average interest rate of 1.64%, and maturity dates ranging from 2023 to 2051.

During 2022 and the first half of 2023, the Company had entered into 11 treasury lock agreements, each with a term of 10 years, with notional amounts totaling $300 million. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In June 2023, the Company terminated the treasury lock agreements realizing a net gain of $3 million included in Other, net in the accompanying Consolidated Statements of Operations.

No ineffectiveness was recognized on hedging instruments for the three and nine months ended September 30, 2023 or 2022.

Note 8: Short-Term Debt

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets and, if and to the extent necessary, borrowings under the AWCC revolving credit facility, and issuances of equity. The revolving credit facility provides $2.75 billion in aggregate total commitments from a diversified group of financial institutions. On October 26, 2023, the termination date of the credit agreement with respect to AWCC’s revolving credit facility was extended, as permitted by the terms of the credit agreement, from October 2027 to October 2028. The revolving credit facility is used principally to support AWCC’s commercial paper program, to provide additional liquidity support and to provide a sub-limit of up to $150 million for letters of credit. As of September 30, 2023 and December 31, 2022, there were no borrowings under the revolving credit facility. As of September 30, 2023 and December 31, 2022, there were $ 75 million and $78 million, respectively, of outstanding letters of credit under the revolving credit facility.

At September 30, 2023, there was no outstanding short-term debt. In the second quarter of 2023, the net proceeds of the Notes were used to repay the short-term commercial paper obligations. See Note 7—Long-Term Debt for additional information relating to the Notes.

At December 31, 2022, short-term debt consisting of commercial paper borrowings totaled $ 1,177 million, or net of discount $1,175 million. The weighted-average interest rate on AWCC’s outstanding short-term borrowings was approximately 4.41% and there were no commercial paper borrowings outstanding with maturities greater than three months.

Presented in the tables below is the aggregate credit facility commitments, commercial paper limit and letter of credit availability under the revolving credit facility, as well as the available capacity for each:

	As of September 30, 2023		
(In millions)	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	—	(75)	(75)
Remaining availability as of September 30, 2023	$ 2,600	$ 75	$ 2,675

(a) Total remaining availability of $2.68 billion as of September 30, 2023, may be accessed through revolver draws.

	As of December 31, 2022		
(In millions)	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(1,177)	(78)	(1,255)
Remaining availability as of December 31, 2022	$ 1,423	$ 72	$ 1,495

(a) Total remaining availability of $1.50 billion as of December 31, 2022, was accessible through revolver draws.

Presented in the table below is the Company’s total available liquidity as of September 30, 2023 and December 31, 2022, respectively:

(In millions)	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of September 30, 2023	$ 628	$ 2,675	$ 3,303
Available liquidity as of December 31, 2022	$ 85	$ 1,495	$ 1,580

Note 9: Income Taxes

The Company’s effective income tax rate was 20.6% and 19.1% for the three months ended September 30, 2023 and 2022, respectively, and 21.0% and 18.9% for the nine months ended September 30, 2023 and 2022, respectively. The increase in the Company’s effective income tax rate for the three and nine months ended September 30, 2023, was primarily due to the decrease in the amortization of EADIT pursuant to regulatory orders. The amortization of EADIT is generally offset with a reduction in revenue.

On August 16, 2022, the Inflation Reduction Act of 2022 (the “IRA”) was signed into law. The IRA contains a Corporate Alternative Minimum Tax (“CAMT”) provision, effective January 1, 2023. To determine if a company is considered an applicable corporation subject to CAMT, the company’s average adjusted financial statement income (“AFSI”) for the three consecutive years preceding the tax year must exceed $1 billion. An applicable corporation must make several adjustments to net income when determining AFSI. The Company evaluated the potential impacts of the CAMT provision within the IRA and believes it does not exceed the $1 billion AFSI threshold, and therefore, is not currently subject to CAMT in 2023. The Company is continuing to assess the impact of the initial guidance regarding the application of the CAMT and will continue to monitor as additional guidance is released.

Note 10: Pension and Other Postretirement Benefits

Presented in the table below are the components of net periodic benefit costs:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Components of net periodic pension benefit cost (credit):				
Service cost	$ 4	$ 8	$ 12	$ 23
Interest cost	22	16	65	48
Expected return on plan assets	(23)	(31)	(69)	(92)
Amortization of prior service credit	(1)	(1)	(3)	(3)
Amortization of actuarial loss	4	5	11	15
Net periodic pension benefit cost (credit)	$ 6	$ (3)	$ 16	$ (9)
Components of net periodic other postretirement benefit credit:				
Service cost	$ 1	$ 1	$ 2	$ 3
Interest cost	4	3	11	8
Expected return on plan assets	(3)	(5)	(9)	(15)
Amortization of prior service credit	(8)	(8)	(24)	(24)
Amortization of actuarial loss	1	—	2	—
Net periodic other postretirement benefit credit	$ (5)	$ (9)	$ (18)	$ (28)

The Company contributed $11 million and $31 million for the funding of its defined benefit pension plans for the three and nine months ended September 30, 2023, respectively, and contributed $9 million and $27 million for the funding of its defined benefit pension plans for the three and nine months ended September 30, 2022, respectively. The Company expects to make pension contributions to the plan trusts of $11 million during the remainder of 2023.

There were $3 million of contributions for the funding of the Company's other postretirement benefit plans for the three and nine months ended September 30, 2023, and there were no material contributions and $13 million of contributions for the funding of the Company's other postretirement benefit plans for the three and nine months ended September 30, 2022, respectively.

Note 11: Commitments and Contingencies

Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. As of September 30, 2023, the Company has accrued approximately $4 million of probable loss contingencies associated with such actions and has estimated that the maximum amount of loss associated with reasonably possible loss contingencies associated with such actions, which can be reasonably estimated, is $3 million. For certain legal actions, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such actions, other than as described in this Note 11—Commitments and Contingencies, will not have a material adverse effect on the Company.

Dunbar, West Virginia Water Main Break Class Action Litigation

On the evening of June 23, 2015, a 36-inch pre-stressed concrete transmission water main, installed in the early 1970s, failed. The water main is part of the West Relay pumping station located in the City of Dunbar, West Virginia and owned by the Company's West Virginia subsidiary ("WVAWC"). The failure of the main caused water outages and low pressure for up to approximately 25,000 WVAWC customers. In the early morning hours of June 25, 2015, crews completed a repair, but that same day, the repair developed a leak. On June 26, 2015, a second repair was completed, and service was restored that day to approximately 80% of the impacted customers, and to the remaining approximately 20% by the next morning. The second repair showed signs of leaking, but the water main was usable until June 29, 2015, to allow tanks to refill. The system was reconfigured to maintain service to all but approximately 3,000 customers while a final repair was being completed safely on June 30, 2015. Water service was fully restored by July 1, 2015, to all customers affected by this event.

On June 2, 2017, a complaint captioned *Jeffries, et al. v. West Virginia-American Water Company* was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of residents and business owners who lost water service or pressure as a result of the Dunbar main break. The complaint alleges breach of contract by WVAWC for failure to supply water, violation of West Virginia law regarding the sufficiency of WVAWC's facilities and negligence by WVAWC in the design, maintenance and operation of the water system. The *Jeffries* plaintiffs seek unspecified alleged damages on behalf of the class for lost profits, annoyance and inconvenience, and loss of use, as well as punitive damages for willful, reckless and wanton behavior in not addressing the risk of pipe failure and a large outage.

In February 2020, the *Jeffries* plaintiffs filed a motion seeking class certification on the issues of breach of contract and negligence, and to determine the applicability of punitive damages and a multiplier for those damages if imposed. In July 2020, the Circuit Court entered an order granting the *Jeffries* plaintiffs' motion for certification of a class regarding certain liability issues but denying certification of a class to determine a punitive damages multiplier. In August 2020, WVAWC filed a Petition for Writ of Prohibition in the Supreme Court of Appeals of West Virginia seeking to vacate or remand the Circuit Court's order certifying the issues class. In January 2021, the Supreme Court of Appeals remanded the case back to the Circuit Court for further consideration in light of a decision issued in another case relating to the class certification issues raised on appeal. On July 5, 2022, the Circuit Court entered an order again certifying a class to address at trial certain liability issues but not to consider damages. On August 26, 2022, WVAWC filed another Petition for Writ of Prohibition in the Supreme Court of Appeals of West Virginia challenging the West Virginia Circuit Court's July 5, 2022 order, which petition was denied on June 8, 2023. On August 21, 2023, the Circuit Court set a date of September 9, 2024 for a class trial on issues relating to duty and breach of that duty. The trial will not find class-wide or punitive damages.

The Company and WVAWC believe that WVAWC has valid, meritorious defenses to the claims raised in this class action complaint. WVAWC is vigorously defending itself against these allegations. Given the current stage of this proceeding, the Company cannot reasonably estimate the amount of any reasonably possible loss or a range of loss related to this proceeding.

Chattanooga, Tennessee Water Main Break Class Action Litigation

On September 12, 2019, the Company's Tennessee subsidiary ("TAWC"), experienced a leak in a 36-inch water transmission main, which caused service fluctuations or interruptions to TAWC customers and the issuance of a boil water notice. TAWC repaired the main by early morning on September 14, 2019, and restored full water service by the afternoon of September 15, 2019, with the boil water notice lifted for all customers on September 16, 2019.

On September 17, 2019, a complaint captioned *Bruce, et al. v. American Water Works Company, Inc., et al.* was filed in the Circuit Court of Hamilton County, Tennessee against TAWC, the Company and American Water Works Service Company, Inc. ("Service Company" and, together with TAWC and the Company, collectively, the "Tennessee-American Water Defendants"), on behalf of a proposed class of individuals or entities who lost water service or suffered monetary losses as a result of the Chattanooga incident (the "Tennessee Plaintiffs"). The complaint alleged breach of contract and negligence against the Tennessee-American Water Defendants, as well as an equitable remedy of piercing the corporate veil. In the complaint as originally filed, the Tennessee Plaintiffs were seeking an award of unspecified alleged damages for wage losses, business and economic losses, out-of-pocket expenses, loss of use and enjoyment of property and annoyance and inconvenience, as well as punitive damages, attorneys' fees and pre- and post-judgment interest. In September 2020, the court dismissed all of the Tennessee Plaintiffs' claims in their complaint, except for the breach of contract claims against TAWC, which remain pending. In October 2020, TAWC answered the complaint, and the parties have been engaging in discovery. On January 12, 2023, after hearing oral argument, the court issued an oral ruling denying the Tennessee Plaintiffs' motion for class certification. On February 9, 2023, the Tennessee Plaintiffs sought reconsideration of the ruling by the court, and any final ruling is appealable to the Tennessee Court of Appeals, as allowed under Tennessee law. On September 21, 2023, the court upheld its prior ruling but gave the Tennessee Plaintiffs the option to file an amended class definition. On October 12, 2023, the Tennessee Plaintiffs filed an amended class definition seeking certification of a business customer-only class. An order denying the original proposed class and addressing the proposed amended class has not been entered by the court and remains pending.

TAWC and the Company believe that TAWC has meritorious defenses to the claims raised in this class action complaint, and TAWC is vigorously defending itself against these allegations. The Company cannot currently determine the likelihood of a loss, if any, or estimate the amount of any loss or a range of such losses related to this proceeding.

Alternative Water Supply in Lieu of Carmel River Diversions

Compliance with Orders to Reduce Carmel River Diversions—Monterey Peninsula Water Supply Project

Under a 2009 order (the "2009 Order") of the State Water Resources Control Board (the "SWRCB"), the Company's California subsidiary ("Cal Am") is required to decrease significantly its yearly diversions of water from the Carmel River according to a set reduction schedule. In 2016, the SWRCB issued an order (the "2016 Order," and, together with the 2009 Order, the "Orders") approving a deadline of December 31, 2021, for Cal Am's compliance with these prior orders.

Cal Am is currently involved in developing the Monterey Peninsula Water Supply Project (the “Water Supply Project”), which includes the construction of a desalination plant, to be owned by Cal Am, and the construction of wells that would supply water to the desalination plant. In addition, the Water Supply Project also includes Cal Am’s purchase of water from a groundwater replenishment project (the “GWR Project”) between Monterey One Water and the Monterey Peninsula Water Management District (the “MPWMD”). The Water Supply Project is intended, among other things, to fulfill Cal Am’s obligations under the Orders.

Cal Am’s ability to move forward on the Water Supply Project is subject to administrative review by the CPUC and other government agencies, obtaining necessary permits, and intervention from other parties. In September 2016, the CPUC unanimously approved a final decision to authorize Cal Am to enter into a water purchase agreement for the GWR Project and to construct a pipeline and pump station facilities and recover up to $50 million in associated incurred costs, plus an allowance for funds used during construction (“AFUDC”), subject to meeting certain criteria.

In September 2018, the CPUC unanimously approved another final decision finding that the Water Supply Project meets the CPUC’s requirements for a certificate of public convenience and necessity and an additional procedural phase was not necessary to consider alternative projects. The CPUC’s 2018 decision concludes that the Water Supply Project is the best project to address estimated future water demands in Monterey, and, in addition to the cost recovery approved in its 2016 decision, adopts Cal Am’s cost estimates for the Water Supply Project, which amounted to an aggregate of $279 million plus AFUDC at a rate representative of Cal Am’s actual financing costs. The 2018 final decision specifies the procedures for recovery of all of Cal Am’s prudently incurred costs associated with the Water Supply Project upon its completion, subject to the frameworks included in the final decision related to cost caps, operation and maintenance costs, financing, ratemaking and contingency matters. The reasonableness of the Water Supply Project costs will be reviewed by the CPUC when Cal Am seeks cost recovery for the Water Supply Project. Cal Am is also required to implement mitigation measures to avoid, minimize or offset significant environmental impacts from the construction and operation of the Water Supply Project and comply with a mitigation monitoring and reporting program, a reimbursement agreement for CPUC costs associated with that program, and reporting requirements on plant operations following placement of the Water Supply Project in service. Cal Am has incurred $233 million in aggregate costs as of September 30, 2023 related to the Water Supply Project, which includes $69 million in AFUDC.

In September 2021, Cal Am, Monterey One Water and the MPWMD reached an agreement on Cal Am’s purchase of additional water from an expansion to the GWR Project, which is not expected to produce additional water until 2024 at the earliest. On December 5, 2022, the CPUC issued a final decision that authorized Cal Am to enter into the amended water purchase agreement, and specifically to increase pumping capacity and reliability of groundwater extraction from the Seaside Groundwater Basin. The final decision sets the cost cap for the proposed facilities at approximately $62 million. Cal Am may seek recovery of amounts above the cost cap in a subsequent rate filing or general rate case. Additionally, the final decision authorizes AFUDC at Cal Am’s actual weighted average cost of debt for most of the facilities. On December 30, 2022, Cal Am filed with the CPUC an application for rehearing of the CPUC’s December 5, 2022, final decision, and on March 30, 2023, the CPUC issued a decision denying Cal Am’s application for rehearing, but adopting its proposed AFUDC for already incurred and future costs. This decision also provided Cal Am the opportunity to serve supplemental testimony to increase its cost cap for certain of the Water Supply Project’s extraction wells. The amended water purchase agreement and a memorandum of understanding to negotiate certain milestones related to the expansion of the GWR Project have been signed by the relevant parties. Further hearings to be scheduled in a Phase 2 to this CPUC proceeding will focus on updated supply and demand estimates for the Water Supply Project.

While Cal Am believes that its expenditures to date have been prudent and necessary to comply with the Orders, as well as relevant final decisions of the CPUC related thereto, Cal Am cannot currently predict its ability to recover all of its costs and expenses associated with the Water Supply Project and there can be no assurance that Cal Am will be able to recover all of such costs and expenses in excess of the $112 million in aggregate construction costs, plus applicable AFUDC, previously approved by the CPUC in its 2016 final decision and its December 2022 final decision, as amended by its March 30, 2023 rehearing decision.

Coastal Development Permit Application

In 2018, Cal Am submitted a coastal development permit application (the “Marina Application”) to the City of Marina (the “City”) for those project components of the Water Supply Project located within the City’s coastal zone. Members of the City’s Planning Commission, as well as City councilpersons, have publicly expressed opposition to the Water Supply Project. In May 2019, the City issued a notice of final local action based upon the denial by the Planning Commission of the Marina Application. Thereafter, Cal Am appealed this decision to the Coastal Commission, as permitted under the City’s code and the California Coastal Act. At the same time, Cal Am submitted an application (the “Original Jurisdiction Application”) to the Coastal Commission for a coastal development permit for those project components located within the Coastal Commission’s original jurisdiction. After Coastal Commission staff issued reports recommending denial of the Original Jurisdiction Application, noting potential impacts on environmentally sensitive habitat areas and wetlands and possible disproportionate impacts to communities of concern, in September 2020, Cal Am withdrew the Original Jurisdiction Application in order to address the staff’s environmental justice concerns. The withdrawal of the Original Jurisdiction Application did not impact Cal Am’s appeal of the City’s denial of the Marina Application, which remains pending before the Coastal Commission. In November 2020, Cal Am refiled the Original Jurisdiction Application.

On October 5, 2022, Cal Am announced a phasing plan for the proposed desalination plant component of the Water Supply Project. The desalination plant and slant wells originally approved by the CPUC would produce up to 6.4 million gallons of desalinated water per day. Under the phased approach, the facilities would initially be constructed to produce up to 4.8 million gallons per day of desalinated water, enough to meet anticipated demand through about 2030, and would limit the number of slant wells initially constructed. As demand increases in the future, desalination facilities would be expanded to meet the additional demand. The phased approach seeks to meet near-term demand by allowing for additional supply as it becomes needed, while also providing an opportunity for regional future public participation and was developed by Cal Am based on feedback received from the community.

On November 17, 2022, the Coastal Commission approved the Marina Application and the Original Jurisdiction Application with respect to the phased development of the proposed desalination plant, subject to compliance with a number of conditions, all of which Cal Am expects to satisfy. On December 29, 2022, the City, Marina Coast Water District (“MCWD”), MCWD’s groundwater sustainability agency, and the MPWMD jointly filed a petition for writ of mandate in Monterey County Superior Court against the Coastal Commission, alleging that the Coastal Commission violated the California Coastal Act and the California Environmental Quality Act in issuing a coastal development permit to Cal Am for construction of the slant wells. Cal Am is named as a real party in interest. This matter remains pending.

Following the issuance of the coastal development permit, Cal Am continues to work constructively with all appropriate agencies to provide necessary information in connection with obtaining the remaining required permits for the Water Supply Project. However, there can be no assurance that the Water Supply Project in its current configuration will be completed on a timely basis, if ever. For the year ended December 31, 2022, Cal Am has complied with the diversion limitations contained in the 2016 Order. Continued compliance with the diversion limitations in 2023 and future years may be impacted by a number of factors, including, without limitation, continued drought conditions in California and the exhaustion of water supply reserves, and will require successful development of alternate water supply sources sufficient to meet customer demand. The Orders remain in effect until Cal Am certifies to the SWRCB, and the SWRCB concurs, that Cal Am has obtained a permanent supply of water to substitute for past unauthorized Carmel River diversions. While the Company cannot currently predict the likelihood or result of any adverse outcome associated with these matters, further attempts to comply with the Orders may result in material additional costs and obligations to Cal Am, including fines and penalties against Cal Am in the event of noncompliance with the Orders.

Potential Condemnation of Monterey System Assets

The water system assets of Cal Am located in Monterey, California (the “Monterey system assets”) are the subject of a potential condemnation action by the MPWMD stemming from a November 2018 public ballot initiative. In 2019, the MPWMD issued a preliminary valuation and cost of service analysis report, finding in part that (1) an estimate of the Monterey system assets’ total value plus adjustments would be approximately $513 million, (2) the cost of service modeling results indicate significant annual reductions in revenue requirements and projected monthly water bills, and (3) the acquisition of the Monterey system assets by the MPWMD would be economically feasible. In 2020, the MPWMD certified a final environmental impact report, analyzing the environmental impacts of the MPWMD’s project to (1) acquire the Monterey system assets through the power of eminent domain, if necessary, and (2) expand its geographic boundaries to include all parts of this system.

In February 2021, the MPWMD filed an application with the Local Agency Formation Commission of Monterey County (“LAFCO”) seeking approval to become a retail water provider and annex approximately 58 parcels of land into the MPWMD’s boundaries. In June 2021, LAFCO’s commissioners voted to require a third-party independent financial study as to the feasibility of an acquisition by the MPWMD of the Monterey system assets. In December 2021, LAFCO’s commissioners denied the MPWMD’s application to become a retail water provider, determining that the MPWMD does not have the authority to proceed with a condemnation of the Monterey system assets. On April 1, 2022, the MPWMD filed a lawsuit against LAFCO challenging its decision to deny the MPWMD’s application seeking approval to become a retail water provider.

By letter dated October 3, 2022, the MPWMD notified Cal Am of a decision to appraise the Monterey system assets and requesting access to a number of Cal Am's properties and documents to assist the MPWMD with such an appraisal. Cal Am responded by letter on October 24, 2022, denying the request for access, stating that the MPWMD does not have the right to appraise Cal Am's system without LAFCO approval to become a retail water provider. On April 28, 2023, Cal Am rejected an offer by the MPWMD to purchase the Monterey system assets for $448.8 million.

Over the written and oral objections of Cal Am, at a hearing held on October 10, 2023, the MPWMD adopted a resolution of necessity to authorize it to file an eminent domain lawsuit with respect to the Monterey system assets. While the Company cannot currently predict the outcome of any such lawsuit, the Company believes that, given existing legal precedent related to similar attempts by public agencies in California to take over water systems, Cal Am should be able to defend itself successfully against an eminent domain lawsuit by the MPWMD.

On October 25, 2023, the Monterey County Superior Court issued an Intended Statement of Decision to issue a writ of mandate directing LAFCO to vacate and set aside its original denial of the MPWMD's application to serve as a retail water provider (in conjunction with its effort to acquire the Monterey water system assets) and to reconsider the application in compliance with all applicable law. The court held that LAFCO incorrectly applied two statutory standards and noted a lack of sufficient evidence to support certain of LAFCO's factual findings. Once the writ of mandate is issued, the LAFCO denial will be nullified and LAFCO will be required to hold another hearing on the MPWMD's application. Cal Am is evaluating potential actions relative to the writ of mandate, including filing an appeal or other challenge and/or making suitable presentations at a subsequent LAFCO rehearing.

West Virginia Elk River Freedom Industries Chemical Spill

On June 8, 2018, the U.S. District Court for the Southern District of West Virginia granted final approval of a settlement class and global class action settlement (the "Settlement") for all claims and potential claims by all class members (collectively, the "West Virginia Plaintiffs") arising out of the January 2014 Freedom Industries, Inc. chemical spill in West Virginia. The effective date of the Settlement was July 16, 2018. Under the terms and conditions of the Settlement, WVAWC and certain other Company affiliated entities did not admit, and will not admit, any fault or liability for any of the allegations made by the West Virginia Plaintiffs in any of the actions that were resolved.

As of September 30, 2023, $0.5 million of the aggregate Settlement amount of $ 126 million remains reflected in accrued liabilities, and $ 0.5 million in an offsetting insurance receivable remains reflected in other current assets on the Consolidated Balance Sheets pending resolution of all asserted actual or potential claims associated with this matter. The amount reflected in accrued liabilities reflects the status of the liability and the offsetting insurance receivable reflected in other current assets, each as of September 30, 2023.

Note 12: Earnings per Common Share

Presented in the table below is a reconciliation of the numerator and denominator for the basic and diluted earnings per share ("EPS") calculations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator:				
Net income attributable to common shareholders	$ 323	$ 297	$ 773	$ 673
Denominator:				
Weighted-average common shares outstanding—Basic	195	182	192	182
Effect of dilutive common stock equivalents	—	—	—	—
Weighted-average common shares outstanding—Diluted	195	182	192	182

The effect of dilutive common stock equivalents is related to outstanding restricted stock units ("RSUs") and performance stock units ("PSUs") granted under the Company's 2007 Omnibus Equity Compensation Plan and outstanding RSUs and PSUs granted under the Company's 2017 Omnibus Equity Compensation Plan, as well as estimated shares to be purchased under the Company's 2017 Nonqualified Employee Stock Purchase Plan. Less than one million share-based awards were excluded from the computation of diluted EPS for the three and nine months ended September 30, 2023 and 2022, because their effect would have been anti-dilutive under the treasury stock method.

The if-converted method is applied to the Notes issued in June 2023 for computing diluted EPS. For both periods presented, there was no dilution resulting from the Notes. See Note 7—Long-Term Debt for additional information relating to the Notes.

Note 13: Fair Value of Financial Information

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities—The carrying amounts reported on the Consolidated Balance Sheets for current assets and current liabilities, including revolving credit debt, due to the short-term maturities and variable interest rates, approximate their fair values.

Seller promissory note from the sale of the Homeowner Services Group ("HOS") — The carrying amount reported on the Consolidated Balance Sheets for the seller promissory note, included as part of the consideration from the sale of HOS, is $720 million as of September 30, 2023 and December 31, 2022. This amount represents the principal amount owed under the seller note, for which the Company expects to receive full payment. The accounting fair value measurement of the seller note approximated $693 million and $686 million as of September 30, 2023 and December 31, 2022, respectively. The accounting fair value measurement is an estimate that is reflective of changes in benchmark interest rates. The seller note is classified as Level 3 within the fair value hierarchy.

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs.

Presented in the tables below are the carrying amounts, including fair value adjustments previously recognized in acquisition purchase accounting, and the fair values of the Company's financial instruments:

	As of September 30, 2023				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 3	$ —	$ —	$ 3	$ 3
Long-term debt	12,190	8,897	1,014	686	10,597

	As of December 31, 2022				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 3	$ —	$ —	$ 3	$ 3
Long-term debt (excluding finance lease obligations)	11,207	8,599	49	1,427	10,075

Recurring Fair Value Measurements

Presented in the tables below are assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy:

	As of September 30, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 33	$ —	$ —	$ 33
Rabbi trust investments	22	—	—	22
Deposits	6	—	—	6
Other investments				
Money market and other	36	—	—	36
Fixed-Income Securities	148	6	—	154
Contingent cash payment from the sale of HOS	—	—	72	72
Total assets	245	6	72	323
Liabilities:				
Deferred compensation obligations	26	—	—	26
Total liabilities	26	—	—	26
Total assets	$ 219	$ 6	$ 72	$ 297

	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 32	$ —	$ —	$ 32
Rabbi trust investments	21	—	—	21
Deposits	7	—	—	7
Other investments				
Money market and other	61	—	—	61
Fixed-Income Securities	147	6	—	153
Contingent cash payment from the sale of HOS	—	—	72	72
Mark-to-market derivative asset	—	1	—	1
Total assets	268	7	72	347
Liabilities:				
Deferred compensation obligations	24	—	—	24
Total liabilities	24	—	—	24
Total assets	$ 244	$ 7	$ 72	$ 323

Restricted funds—The Company's restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operation, maintenance and repair projects.

Rabbi trust investments—The Company's rabbi trust investments consist of equity and index funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets on the Consolidated Balance Sheets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets on the Consolidated Balance Sheets.

Deferred compensation obligations—The Company's deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities on the Consolidated Balance Sheets. The value of the Company's deferred compensation obligations is based on the market value of the participants' notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative assets and liabilities—The Company employs derivative financial instruments in the form of treasury lock agreements, classified as cash flow hedges, in order to fix the interest cost on existing or forecasted debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Other investments—The Company maintains a Voluntary Employees' Beneficiary Association trust for purposes of paying active union employee medical benefits ("Active VEBA"). The investments in the Active VEBA trust primarily consist of money market funds and available-for-sale fixed income securities.

The money market and other investments have original maturities of three months or less when purchased. The fair value measurement of the money market and other investments is based on observable market prices and therefore included in the recurring fair value measurements hierarchy as Level 1.

The available-for-sale fixed income securities are primarily investments in U.S. Treasury securities and government bonds. The majority of U.S. Treasury securities and government bonds have been categorized as Level 1 because they trade in highly-liquid and transparent markets. Certain U.S. Treasury securities are based on prices that reflect observable market information, such as actual trade information of similar securities, and are therefore categorized as Level 2, because the valuations are calculated using models which utilize actively traded market data that the Company can corroborate.

The Company includes other investments measured and recorded at fair value on the Consolidated Balance Sheets of $ 72 million and $67 million in Other current assets, as of September 30, 2023 and December 31, 2022, respectively, and $119 million and $147 million in Other long-term assets, as of September 30, 2023 and December 31, 2022, respectively. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income until realized.

The following tables summarize the unrealized positions for available-for-sale fixed income securities as of September 30, 2023 and December 31, 2022:

	As of September 30, 2023			
	Amortized Cost Basis	Gross unrealized gains	Gross unrealized losses	Fair Value
Available-for-sale fixed-income securities	$ 154	$ 6	$ 6	$ 154

	As of December 31, 2022			
	Amortized Cost Basis	Gross unrealized gains	Gross unrealized losses	Fair Value
Available-for-sale fixed-income securities	$ 153	$ —	$ —	$ 153

The fair value of the Company's available-for-sale fixed income securities, summarized by contractual maturities, as of September 30, 2023, is as follows:

	Amount
Other investments - Available-for-sale fixed-income securities	
Less than one year	$ 100
1 year - 5 years	42
5 years - 10 years	3
Greater than 10 years	9
Total	$ 154

Contingent cash payment from the sale of HOS—The Company's contingent cash payment derivative included as part of the consideration from the sale of HOS, payable upon satisfaction of certain conditions on or before December 31, 2023, is included in other current assets on the Consolidated Balance Sheets. The accounting fair value measurement of the contingent cash payment approximated $72 million, which is reflective of changes in the benchmark interest rate and estimated using the probability of the outcome of receipt of the $75 million, a Level 3 input.

Note 14: Leases

The Company has operating and finance leases involving real property, including facilities, utility assets, vehicles, and equipment. Certain operating leases have renewal options ranging from one year to 60 years. The exercise of lease renewal options is at the Company's sole discretion. Renewal options that the Company was reasonably certain to exercise are included in the Company's right-of-use ("ROU") assets. Certain operating leases contain the option to purchase the leased property. The operating leases for real property, vehicles and equipment will expire over the next 36 years, six years, and five years, respectively.

The Company participates in a number of arrangements with various public entities ("Partners") in West Virginia. Under these arrangements, the Company transferred a portion of its utility plant to the Partners in exchange for an equal principal amount of Industrial Development Bonds ("IDBs") issued by the Partners under the Industrial Development and Commercial Development Bond Act. The Company leased back the utility plant under agreements for a period of 30 to 40 years. The Company has recorded these agreements as finance leases in property, plant and equipment, as ownership of the assets will revert back to the Company at the end of the lease term. The carrying value of the finance lease assets was $144 million and $145 million as of September 30, 2023 and December 31, 2022, respectively. The Company determined that the finance lease obligations and the investments in IDBs meet the conditions for offsetting, and as such, are reported net on the Consolidated Balance Sheets and are excluded from the lease disclosure presented below.

The Company also enters into O&M agreements with the Partners. The Company pays an annual fee for use of the Partners' assets in performing under the O&M agreements. The O&M agreements are recorded as operating leases, and future annual use fees of $1 million in 2023, $4 million in 2024 through 2027, and $45 million thereafter, are included in operating lease ROU assets and operating lease liabilities on the Consolidated Balance Sheets.

Rental expenses under operating leases were $2 million and $3 million for the three months ended September 30, 2023 and September 30, 2022, respectively, and $8 million and $9 million for the nine months ended September 30, 2023 and September 30, 2022, respectively.

For the three and nine months ended September 30, 2023, cash paid for amounts in lease liabilities, which includes operating cash flows from operating leases, were $3 million and $8 million, respectively. For the nine months ended September 30, 2023, there were ROU assets obtained in exchange for new operating lease liabilities of $9 million.

As of September 30, 2023, the weighted-average remaining lease term of the operating leases was 17 years, and the weighted-average discount rate of the operating leases was 4%.

The future maturities of lease liabilities as of September 30, 2023, were $3 million in 2023, $10 million in 2024, $9 million in 2025, $8 million in 2026, $8 million in 2027, and $82 million thereafter. As of September 30, 2023, imputed interest was $40 million.

Note 15: Segment Information

The Company's operating segments are comprised of its businesses which generate revenue, incur expense and have separate financial information which is regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates primarily through one reportable segment, the Regulated Businesses segment. The Regulated Businesses segment also includes inter-segment revenues, costs and interest which are eliminated to reconcile to the Consolidated Statements of Operations.

The Company also operates other businesses, primarily MSG, that do not meet the criteria of a reportable segment in accordance with GAAP and are collectively presented throughout this Form 10-Q within "Other," which is consistent with how management assesses the results of these businesses. Other also includes corporate costs that are not allocated to the Company's Regulated Businesses, interest income related to the seller promissory note and income from the revenue share agreement from the sale of HOS, eliminations of inter-segment transactions and fair value adjustments related to acquisitions that have not been allocated to the Regulated Businesses segment. The adjustments related to the acquisitions are reported in Other as they are excluded from segment performance measures evaluated by management.

On December 9, 2021, the Company sold all of the equity interests of the HOS subsidiaries, for a total consideration of approximately $ 1.275 billion. The consideration was comprised of $480 million in cash, a seller promissory note in the principal amount of $ 720 million, and a contingent cash payment of $75 million payable upon satisfaction of certain conditions on or before December 31, 2023. See Note 13—Fair Value of Financial Information for additional information relating to the seller promissory note and contingent cash payment. The seller promissory note from the sale of HOS, has a five-year term, is payable in cash, and bears interest at a rate of 7.00% per year during the term. The Company recognized $ 13 million of interest income from the seller note for each of the three months ended September 30, 2023 and 2022, and $38 million of interest income from the seller note for each of the nine months ended September 30, 2023 and 2022.

The Company recognized $3 million and $2 million of income during the three months ended September 30, 2023 and 2022, respectively, and $ 9 million and $6 million of income during the nine months ended September 30, 2023 and 2022, respectively, from the revenue share agreements from the sale of HOS, which is included in Other, net on the Consolidated Statements of Operations.

Presented in the tables below is summarized segment information:

	As of or for the Three Months Ended September 30, 2023		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 1,095	$ 72	$ 1,167
Depreciation and amortization	174	3	177
Total operating expenses, net	614	75	689
Interest expense	(92)	(25)	(117)
Interest income	7	16	23
Provision for income taxes	84	—	84
Net income attributable to common shareholders	331	(8)	323
Total assets	26,987	2,831	29,818
Cash paid for capital expenditures	619	7	626

	As of or for the Three Months Ended September 30, 2022		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 1,003	$ 79	$ 1,082
Depreciation and amortization	161	3	164
Total operating expenses, net	574	69	643
Interest expense	(81)	(30)	(111)
Interest income	1	13	14
Provision (benefit) for income taxes	71	(1)	70
Net income (loss) attributable to common shareholders	302	(5)	297
Total assets	24,366	2,760	27,126
Cash paid for capital expenditures	598	4	602

	As of or for the Nine Months Ended September 30, 2023		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 2,960	$ 242	$ 3,202
Depreciation and amortization	515	8	523
Total operating expenses, net	1,770	227	1,997
Interest expense	(269)	(73)	(342)
Interest income	14	38	52
Provision for income taxes	203	2	205
Net income (loss) attributable to common shareholders	783	(10)	773
Total assets	26,987	2,831	29,818
Cash paid for capital expenditures	1,765	14	1,779

	As of or for the Nine Months Ended September 30, 2022		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 2,646	$ 215	$ 2,861
Depreciation and amortization	473	12	485
Total operating expenses, net	1,658	191	1,849
Interest expense	(227)	(90)	(317)
Interest income	1	38	39
Provision for income taxes	154	3	157
Net income (loss) attributable to common shareholders	681	(8)	673
Total assets	24,366	2,760	27,126
Cash paid for capital expenditures	1,588	9	1,597

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the unaudited Consolidated Financial Statements and the Notes thereto included elsewhere in this Form 10-Q, and in the Company's Form 10-K for the year ended December 31, 2022. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about the Company's business, operations and financial performance. The cautionary statements made in this Form 10-Q should be read as applying to all related forward-looking statements whenever they appear in this Form 10-Q. The Company's actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those that are discussed under "Forward-Looking Statements" and elsewhere in this Form 10-Q. The Company has a disclosure committee consisting of members of senior management and other key employees involved in the preparation of the Company's SEC reports. The disclosure committee is actively involved in the review and discussion of the Company's SEC filings.

Overview

American Water is the largest and most geographically diverse, publicly traded water and wastewater utility company in the United States, as measured by both operating revenues and population served. The Company's primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the "Regulated Businesses." Services provided by the Company's utilities are subject to regulation by multiple state utility commissions or other entities engaged in utility regulation, collectively referred to as public utility commissions ("PUCs"). The Company also operates other businesses not subject to economic regulation by state PUCs that provide water and wastewater services to the U.S. government on military installations, as well as municipalities, collectively presented throughout this Form 10-Q within "Other." See Part I, Item 1—Business in the Company's Form 10-K for additional information.

Financial Results

For the three and nine months ended September 30, 2023, diluted earnings per share, prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), were $1.66 and $4.03, respectively, an increase of $0.03 and $0.33, respectively, as compared to the same periods in the prior year. These increases were primarily driven by the implementation of new rates in the Regulated Businesses for the recovery of capital and acquisition investments, offset somewhat by increased production costs, including inflationary pressures since mid-2022, and higher pension costs. Approximately 75% of the estimated impact of increased production costs, including chemicals, power and other fuel, and higher pension costs, are reflected in higher revenues in 2023 from rate cases recently completed. Results for the three and nine months ended September 30, 2023, reflect the net favorable impact of warmer, drier weather compared to normal, estimated at $0.04 and $0.11 per share, respectively. Results for the three and nine months ended September 30, 2022, reflect the net favorable impact of weather compared to normal, estimated at $0.06 per share. Results for the three and nine months ended September 30, 2023, also reflect the impact of share dilution from the equity financing of $0.12 and $0.22 per share, respectively, roughly equivalent to avoided interest expense.

Growth Through Capital Investment in Infrastructure and Regulated Acquisitions

The Company continues to grow its businesses, with the majority of its growth to be achieved in the Regulated Businesses through (i) continued capital investment in the Company's infrastructure to provide safe, clean, reliable and affordable water and wastewater services to its customers, and (ii) regulated acquisitions to expand the Company's services to new customers. The Company plans to invest approximately $2.9 billion in these growth strategies in 2023. During the first nine months of 2023, the Company invested $1.8 billion, primarily in the Regulated Businesses, as discussed below:

Regulated Businesses - Growth and Optimization

- $1.77 billion capital investment in the Regulated Businesses, the substantial majority for infrastructure improvements and replacements; and
- $36 million to fund acquisitions in the Regulated Businesses, which added approximately 7,900 customers, in addition to approximately 14,200 customers added through organic growth. This includes the Company's New Jersey subsidiary's acquisition of the water and wastewater assets of Egg Harbor City on June 1, 2023, for a cash purchase price of $22 million, $2 million of which was funded as a deposit to the seller in March 2021 in connection with the execution of the acquisition agreement.

On April 6, 2023, the Company's Illinois subsidiary entered into an agreement to acquire the wastewater treatment plant from Granite City for an amended purchase price of $86 million. This plant provides wastewater service for approximately 26,000 customer connections. The Company expects to close this acquisition around year-end 2023, pending regulatory approval.

Effective March 24, 2023, the Company's Pennsylvania subsidiary acquired the rights to buy the wastewater system assets of the Township of Towamencin, for an aggregate purchase price of $104 million, subject to adjustment as provided in the asset purchase agreement. This system provides wastewater services to approximately 6,300 customer connections in seven townships in Montgomery County, Pennsylvania. The Company expects to close this acquisition in late 2024 or early 2025, pending final regulatory approval.

On October 11, 2022, the Company's Pennsylvania subsidiary entered into an agreement to acquire the wastewater assets of the Butler Area Sewer Authority for an amended purchase price of $230 million in cash, subject to adjustment as provided for in the asset purchase agreement. This system provides wastewater service for approximately 14,700 customer connections. The Company expects to close this acquisition by the end of 2023, pending regulatory approval.

As of September 30, 2023, the Company had entered into 32 agreements with a total aggregate purchase price of $611 million for pending acquisitions in the Regulated Businesses, including the agreements discussed above, to add approximately 88,100 additional customers.

Other Matters

Environmental, Health and Safety, and Water Quality Regulation

On March 14, 2023, the United States Environmental Protection Agency ("EPA") announced the proposed National Primary Drinking Water Regulations ("NPDWR") for six per- and polyfluoroalkyl substances ("PFAS") including perfluorooctanoic acid ("PFOA"), perfluorooctane sulfonic acid ("PFOS"), perfluorononanoic acid ("PFNA"), hexafluoropropylene oxide dimer acid ("HFPO-DA", commonly known as "GenX Chemicals"), perfluorohexane sulfonic acid ("PFHxS"), and perfluorobutane sulfonic acid ("PFBS"). The proposed regulations would establish legally enforceable levels for PFAS in drinking water. The EPA anticipates issuing a final rule by the end of 2023 and utilities will be provided a three-year window to comply with the new regulations once finalized, although the Safe Drinking Water Act allows utilities to request an additional two years if capital improvements are required.

The Company performed an initial review of the NPDWR to assess the four parts per trillion requirements for PFAS and the application of the Hazard Index approach for PFNA, PFBS, PFHxS, and GenX Chemicals. On May 24, 2023, the Company submitted comments to the EPA outlining its position on key issues to address the proposed regulations, including its projected costs associated with PFAS treatment at the proposed limits and the potential impact to customers' bills. The Company estimates an investment of approximately $1 billion of capital expenditures to install additional treatment facilities over a three to five-year period in order to comply with the proposed regulations. Additionally, the Company estimates annual operating expenses of approximately $50 million related to testing and treatment in today's dollars. These are preliminary estimates based on the proposed rule. The actual expenses may differ from these preliminary estimates and will be dependent upon multiple factors, including the final rule and effective date, as well as the completion of a system-by-system engineering analysis.

The Company supports sound policies and compliance with the NPDWR by all water utilities, while protecting customers and communities from the costly burden of monitoring for and mitigating PFAS contamination in water systems. The Company continues to advocate for policies that hold polluters accountable and is currently participating in the multi-district litigation and other lawsuits filed against certain PFAS manufacturers seeking damages and reimbursement of costs incurred and continuing to be incurred to address contamination of public water supply systems by PFAS. The Company is monitoring ongoing litigation and settlement activity with manufacturers of PFAS in these proceedings for potential impacts to the various claims asserted by the Company, including deadlines set in the multi-district litigation of December 4, 2023, and December 11, 2023, for water utilities, including the Company, to opt out of proposed class action settlements with certain of such manufacturers. For more information on the PFAS multi-district litigation, see Part II, Item 1—Legal Proceedings—PFAS Multi-District Litigation.

Operational Excellence

The Company's adjusted regulated operation and maintenance ("O&M") efficiency ratio was 32.6% for the twelve months ended September 30, 2023, as compared to 33.6% for the twelve months ended September 30, 2022. The ratio reflects an increase in operating revenues for the Regulated Businesses, after considering the adjustment for the amortization of the excess accumulated deferred income taxes ("EADIT") shown in the table below, as well as the continued focus on operating costs.

The Company's adjusted regulated O&M efficiency ratio is a non-GAAP measure and is defined by the Company as its operation and maintenance expenses from the Regulated Businesses, divided by the operating revenues from the Regulated Businesses, where both operation and maintenance expenses and operating revenues were adjusted to eliminate purchased water expense. Operating revenues were further adjusted to exclude reductions for the amortization of the EADIT. Also excluded from operation and maintenance expenses is the allocable portion of non-O&M support services costs, mainly depreciation and general taxes, which is reflected in the Regulated Businesses segment as operation and maintenance expenses, but for consolidated financial reporting purposes, is categorized within other line items in the accompanying Consolidated Statements of Operations. The items discussed above were excluded from the O&M efficiency ratio calculation as they are not reflective of management's ability to increase the efficiency of the Regulated Businesses.

The Company evaluates its operating performance using this ratio, and believes it is useful to investors because it directly measures improvement in the operating performance and efficiency of the Regulated Businesses. This information is derived from the Company's consolidated financial information but is not presented in its financial statements prepared in accordance with GAAP. This information supplements and should be read in conjunction with the Company's GAAP disclosures, and should be considered as an addition to, and not a substitute for, any GAAP measure. The Company's adjusted regulated O&M efficiency ratio (i) is not an accounting measure that is based on GAAP; (ii) is not based on a standard, objective industry definition or method of calculation; (iii) may not be comparable to other companies' operating measures; and (iv) should not be used in place of the GAAP information provided elsewhere in this Form 10-Q.

Presented in the table below is the calculation of the Company's adjusted regulated O&M efficiency ratio and a reconciliation that compares operation and maintenance expenses and operating revenues, each as determined in accordance with GAAP, to those amounts utilized in the calculation of its adjusted O&M efficiency ratio:

	For the Twelve Months Ended September 30,	
(Dollars in millions)	**2023**	**2022**
Total operation and maintenance expenses	$ 1,681	$ 1,647
Less:		
Operation and maintenance expenses—Other	284	315
Total operation and maintenance expenses—Regulated Businesses	1,397	1,332
Less:		
Regulated purchased water expenses	156	153
Allocation of non-operation and maintenance expenses	23	32
Adjusted operation and maintenance expenses—Regulated Businesses (i)	$ 1,218	$ 1,147
Total operating revenues	$ 4,133	$ 3,812
Less:		
Operating revenues—Other	315	338
Total operating revenues—Regulated Businesses	3,818	3,474
Less:		
Regulated purchased water revenues (a)	156	153
Revenue reductions from the amortization of EADIT	(75)	(92)
Adjusted operating revenues—Regulated Businesses (ii)	$ 3,737	$ 3,413
Adjusted O&M efficiency ratio—Regulated Businesses (i) / (ii)	32.6 %	33.6 %

(a) The calculation assumes regulated purchased water revenues approximate regulated purchased water expenses.

Regulatory Matters

General Rate Cases

Presented in the table below are annualized incremental revenues, including reductions for the amortization of the EADIT that are generally offset in income tax expense, assuming a constant sales volume and customer count, resulting from general rate case authorizations that became effective during 2023:

(In millions)	Effective Date	Amount
General rate cases by state:		
Missouri	May 28, 2023	$ 44
Virginia	April 24, 2023 (a)	11
Pennsylvania	January 28, 2023	138
Illinois	January 1, 2023	67
California, Step Increase	January 1, 2023	13
Total general rate case authorizations		$ 273

(a) Interim rates were effective May 1, 2022, and the difference between interim and final approved rates were subject to refund. The Virginia State Corporation Commission issued its final Order on April 24, 2023.

On June 29, 2023, the California Public Utilities Commission ("CPUC") issued a decision on the cost of capital application for the Company's California subsidiary, which authorizes a return on equity of 8.98% and a capital structure with an equity component of 57.04% for the three-year period from 2022 to 2024. The CPUC's decision is not retroactive and was effective from the date of the order through the end of 2024. The decision includes a Water Cost of Capital Mechanism (the "WCCM") that would allow the California subsidiary to increase its return on equity for the remainder of 2023 and 2024 based on capital market rates. As authorized by the WCCM, on June 30, 2023, the California subsidiary filed with the CPUC staff an advice letter to seek a 52 basis point increase to the return on equity for 2023, which was approved on July 25, 2023, increasing the return on equity to 9.50%, effective July 31, 2023. On October 16, 2023, the California subsidiary filed with the CPUC staff an advice letter to implement a 70 basis point increase to the return on equity, effective January 1, 2024, based on the triggering of the WCCM. After approval, the authorized return on equity will increase to 10.20%.

On May 3, 2023, the Missouri Public Service Commission issued an order approving the March 3, 2023, joint settlement agreement in the general rate case filed on July 1, 2022, by the Company's Missouri subsidiary. The general rate case order approved a $44 million annualized increase in water and wastewater revenues, excluding $51 million in previously approved infrastructure surcharges, and authorized implementation of the new water and wastewater rates effective May 28, 2023. The annualized revenue increase is driven primarily by significant incremental capital investments since the Missouri subsidiary's 2021 rate case order. The Missouri subsidiary's view of its rate base is $2.3 billion, and its view as to its return on equity and long-term debt ratio (each of which is based on the general rate case order but was not disclosed therein) is 9.75% and 50.0%, respectively.

On April 24, 2023, the Virginia State Corporation Commission issued an order approving the settlement of the rate case filed on September 26, 2022, by the Company's Virginia subsidiary. The general rate case order approved an $11 million annualized increase in water and wastewater revenues. Interim rates in this proceeding were effective on May 1, 2022, and the order required that the difference between interim and the final approved rates were subject to refund within 90 days of the order issuance. The order approves the settlement terms with a return on equity of 9.7% and a common equity ratio of 40.7%. The annualized revenue increase is driven primarily by significant incremental capital investments since the Virginia subsidiary's 2020 rate case order that have been completed or were planned through April 30, 2023, increases in pension and other postretirement benefits expense and increases in production costs, including chemicals, fuel and power costs. The general rate case order includes recovery of the Virginia subsidiary's COVID-19 deferral balance. It also includes approval of the accounting deferral of deviations in pension and other postretirement benefits expense from those established in base rates, until the Virginia subsidiary's next base rate case.

On December 8, 2022, the Pennsylvania Public Utility Commission issued an order approving the joint settlement agreement in the rate case filed on April 29, 2022, by the Company's Pennsylvania subsidiary. The general rate case order approved a $138 million annualized increase in water and wastewater revenues, excluding $24 million for previously approved infrastructure filings, and authorizes implementation of the new water and wastewater rates effective January 28, 2023. The annualized revenue increase is driven primarily by significant incremental capital investments since the Pennsylvania subsidiary's 2021 rate case order that will be completed through December 31, 2023, increases in pension and other postretirement benefits expense and increases in production costs, including chemicals, fuel and power costs. The general rate case order also includes recovery of the Pennsylvania subsidiary's COVID-19 deferral balance. The Pennsylvania subsidiary's view of its rate base is $5.1 billion, and its view as to its return on equity and long-term debt ratio (each of which is based on the general rate case order but was not disclosed therein) is 10.0% and 44.8%, respectively.

On December 15, 2022, the Illinois Commerce Commission issued an order approving the adjustment of base rates requested in a rate case filed on February 10, 2022, by the Company's Illinois subsidiary. As updated in the Illinois subsidiary's June 29, 2022 rebuttal filing, the request sought $83 million in additional annualized revenues, excluding previously recovered infrastructure surcharges. The general rate case order approved a $67 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $18 million, effective January 1, 2023, based on an authorized return on equity of 9.78%, authorized rate base of $1.64 billion, a common equity ratio of 49.0% and a debt ratio of 51.0%. The annualized revenue increase is being driven primarily by significant water and wastewater system capital investments since the Illinois subsidiary's 2017 rate case order that have been completed or are planned through December 31, 2023, expected higher pension and other postretirement benefit costs, and increases in production costs, including chemicals, fuel and power costs.

Pending General Rate Case Filings

On November 1, 2023, the Company's Virginia subsidiary filed a general rate case requesting $20 million in additional annualized revenues. Interim rates will be effective May 1, 2024, with the difference between interim and final approved rates subject to refund.

On June 30, 2023, the Company's Kentucky subsidiary filed a general rate case requesting $26 million in additional annualized revenues, excluding infrastructure surcharges of $10 million. An order is expected in the general rate case by the end of the first quarter of 2024.

On May 1, 2023, the Company's West Virginia subsidiary filed a general rate case requesting $45 million in additional annualized revenues, excluding previously approved infrastructure surcharges of $7 million. The general rate case includes a future test year capturing planned investment through 2025 and an order is expected to be issued by February 25, 2024. On June 30, 2023, the West Virginia subsidiary filed its annual infrastructure surcharge requesting $8 million in additional annualized revenues for planned investment through 2024. The infrastructure surcharge will be aligned with the investments recognized in the general rate case if the future test year is approved.

On March 31, 2023, the Company's Indiana subsidiary filed a general rate case requesting $87 million in additional annualized revenues, excluding $41 million of revenue from infrastructure filings already approved, which includes three step increases, with $43 million of the increase to be included in rates in January 2024, $18 million in May 2024, and $26 million in May 2025. Hearings were completed in September and an order is expected in the general rate case by the end of January 2024.

On July 1, 2022, the Company's California subsidiary filed a general rate case requesting an increase in 2024 revenue of $56 million and a total increase in revenue over the 2024 to 2026 period of $95 million, all as compared to 2022 revenues. The Company updated its filing in January 2023 to capture the authorized step increase effective January 1, 2023. The filing was also updated to incorporate a decoupling proposal and a revision to the Company's sales and associated variable expense forecast. The revised filing requested additional annualized revenues for the test year 2024 of $37 million, compared to 2023 revenues. This excludes the proposed step rate and attrition rate increase for 2025 and 2026 of $20 million and $19 million, respectively. The total revenue requirement request for the three-year rate case cycle, incorporating updates to present rate revenues and forecasted demand, is $76 million. In October 2023, evidentiary hearings were held, and an order is expected in the general rate case in 2024 with rates retroactive to January 1, 2024.

Infrastructure Surcharges

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. Presented in the table below are annualized incremental revenues, assuming a constant water sales volume and customer count, resulting from infrastructure surcharge authorizations that became effective during 2023:

(In millions)	Effective Date	Amount
Infrastructure surcharges by state:		
New Jersey	(a)	$ 32
Kentucky	October 1, 2023	4
Indiana	(b)	26
Missouri	January 16, 2023	14
Pennsylvania	January 1, 2023	3
West Virginia	January 1, 2023	7
Total infrastructure surcharge authorizations		$ 86

(a) In 2023, $15 million was effective October 30, $1 million was effective June 29 and $16 million was effective April 29.

(b) In 2023, $20 million was effective March 23 and $6 million was effective March 8.

Pending Infrastructure Surcharge Filings

On September 1, 2023, the Company's Missouri subsidiary filed an infrastructure surcharge proceeding requesting $23 million in additional annualized revenues.

Other Regulatory Matters

In September 2020, the CPUC released a decision under its Low-Income Rate Payer Assistance program rulemaking that required the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would have become effective upon receiving an order in the current pending rate case. On October 5, 2020, the Company's California subsidiary filed an application for rehearing of the decision and following the CPUC's denial of its rehearing application in September 2021, the Company's California subsidiary filed a petition for writ of review with the California Supreme Court on October 27, 2021. On May 18, 2022, the California Supreme Court issued a writ of review for the California subsidiary's petition and the petitions filed by other entities challenging the decision. Independent of the judicial challenge, California passed Senate Bill 1469, which allows the CPUC to consider and authorize the implementation of a mechanism that separates the water corporation's revenue and its water sales. Legislation was signed by the Governor on September 30, 2022, and became effective on January 1, 2023. In response to the legislation, on January 27, 2023, the Company's California subsidiary filed an updated application requesting the CPUC to consider a Water Resources Sustainability Plan decoupling mechanism in its pending 2022 general rate case, which will become effective upon receiving an order in the current pending rate case.

On March 2, 2021, an administrative law judge ("ALJ") in the Office of Administrative Law of New Jersey filed an initial decision with the New Jersey Board of Public Utilities ("NJBPU") that recommended denial of a petition filed by the Company's New Jersey subsidiary, which sought approval of acquisition adjustments in rate base of $29 million associated with the acquisitions of Shorelands Water Company, Inc. in 2017 and the Borough of Haddonfield's water and wastewater systems in 2015. On July 29, 2021, the NJBPU issued an order adopting the ALJ's initial decision without modification. The Company's New Jersey subsidiary filed a Notice of Appeal with the New Jersey Appellate Division on September 10, 2021. The Company's New Jersey subsidiary filed its brief in support of the appeal on March 4, 2022. Response and Reply briefs were filed on June 22, 2022, and August 4, 2022, respectively. Oral argument was held on March 22, 2023, and the Company expects a decision by the end of 2023. There is no financial impact to the Company as a result of the NJBPU's order, since the acquisition adjustments are currently recorded as goodwill on the Consolidated Balance Sheets.

Consolidated Results of Operations

Presented in the table below are the Company's consolidated results of operations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
(In millions)				
Operating revenues	$ 1,167	$ 1,082	$ 3,202	$ 2,861
Operating expenses:				
Operation and maintenance	436	416	1,248	1,156
Depreciation and amortization	177	164	523	485
General taxes	76	63	227	208
Other	—	—	(1)	—
Total operating expenses, net	689	643	1,997	1,849
Operating income	478	439	1,205	1,012
Other income (expense):				
Interest expense	(117)	(111)	(342)	(317)
Interest income	23	14	52	39
Non-operating benefit costs, net	9	19	26	58
Other, net	14	6	37	38
Total other (expense)	(71)	(72)	(227)	(182)
Income before income taxes	407	367	978	830
Provision for income taxes	84	70	205	157
Net income attributable to common shareholders	$ 323	$ 297	$ 773	$ 673

Segment Results of Operations

The Company's operating segments are comprised of its businesses which generate revenue, incur expense and have separate financial information which is regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates its businesses primarily through one reportable segment, the Regulated Businesses segment. The Company also operates other businesses, primarily MSG, that do not meet the criteria of a reportable segment in accordance with GAAP, and are collectively presented throughout this Form 10-Q within "Other." Other also includes corporate costs that are not allocated to the Company's Regulated Businesses, interest income related to the seller promissory note and income from the revenue share agreement from the sale of HOS, eliminations of inter-segment transactions and fair value adjustments related to acquisitions that have not been allocated to the Regulated Businesses segment. This presentation is consistent with how management assesses the results of these businesses.

Regulated Businesses Segment

Presented in the table below is financial information for the Regulated Businesses:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
(In millions)				
Operating revenues	$ 1,095	$ 1,003	$ 2,960	$ 2,646
Operation and maintenance	368	355	1,043	991
Depreciation and amortization	174	161	515	473
General taxes	72	58	213	194
Other	—	—	(1)	—
Other income (expenses)	(66)	(56)	(204)	(153)
Provision for income taxes	84	71	203	154
Net income attributable to common shareholders	$ 331	$ 302	$ 783	$ 681

Operating Revenues

Presented in the tables below is information regarding the main components of the Regulated Businesses' operating revenues:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
(In millions)				
Water services:				
Residential	$ 607	$ 557	$ 1,622	$ 1,469
Commercial	231	208	600	535
Fire service	40	36	118	109
Industrial	50	42	126	116
Public and other	72	83	220	205
Total water services	1,000	926	2,686	2,434
Wastewater services:				
Residential	58	46	169	129
Commercial	16	12	46	33
Industrial	2	1	6	3
Public and other	8	7	21	14
Total wastewater services	84	66	242	179
Other (a)	11	11	32	33
Total operating revenues	$ 1,095	$ 1,003	$ 2,960	$ 2,646

(a) Includes other operating revenues consisting primarily of miscellaneous utility charges, fees and rents.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
(Gallons in millions)				
Billed water services volumes:				
Residential	49,452	51,841	123,527	124,006
Commercial	23,481	24,102	59,029	58,802
Industrial	10,559	10,326	28,014	28,451
Fire service, public and other	15,760	15,504	41,042	39,708
Total billed water services volumes	99,252	101,773	251,612	250,967

For the three months ended September 30, 2023, operating revenues increased $92 million, primarily due to a $99 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states. In addition, operating revenues were $6 million higher from water and wastewater acquisitions and organic growth in existing systems. The increases were partially offset by (i) a $6 million estimated net decrease due to warmer and drier than normal weather in the third quarter of 2022, particularly in the Company's New Jersey service territory, and (ii) a $12 million decrease due to changes in customer demand.

For the nine months ended September 30, 2023, operating revenues increased $314 million, primarily due to: (i) a $276 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states; (ii) a $27 million increase from water and wastewater acquisitions and organic growth in existing systems; and (iii) a $12 million estimated net increase primarily due to drier than normal weather in the second quarter of 2023.

Operation and Maintenance

Presented in the table below is information regarding the main components of the Regulated Businesses' operation and maintenance expense:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022
(In millions)				
Employee-related costs	$ 127	$ 126	$ 386	$ 378
Production costs	125	114	324	291
Operating supplies and services	59	62	173	174
Maintenance materials and supplies	22	22	65	64
Customer billing and accounting	19	17	48	44
Other	16	14	47	40
Total operation and maintenance expense	$ 368	$ 355	$ 1,043	$ 991

For the three months ended September 30, 2023, operation and maintenance expense increased $13 million, primarily due to inflationary impacts from increased chemicals cost.

For the nine months ended September 30, 2023, operation and maintenance expense increased $52 million, primarily due to inflationary impacts from increased fuel, power and chemicals costs.

Depreciation and Amortization

For the three and nine months ended September 30, 2023, depreciation and amortization increased $13 million and $42 million, respectively, primarily due to additional utility plant placed in service from capital infrastructure investments and acquisitions.

General Taxes

For the three and nine months ended September 30, 2023, general taxes increased $14 million and $19 million, respectively, primarily due to an increase in the New Jersey Gross Receipts Tax and incremental property taxes.

Other Income (Expenses)

For the three and nine months ended September 30, 2023, other (expenses) increased $10 million and $51 million, respectively, due to higher interest expense from the issuance of incremental long-term debt. The increases were also due to higher net periodic pension and other postretirement benefit costs in the current periods. These increases were partially offset by an increase in allowance for funds used during construction in the current periods.

Provision for Income Taxes

For the three and nine months ended September 30, 2023, the Regulated Businesses' provision for income taxes increased $13 million and $49 million, respectively. The Regulated Businesses' effective income tax rate was 20.2% and 19.0% for the three months ended September 30, 2023 and 2022, respectively, and 20.6% and 18.4% for the nine months ended September 30, 2023 and 2022, respectively. The increase was primarily due to the decrease in the amortization of EADIT pursuant to regulatory orders. The amortization of EADIT is generally offset with a reduction in revenue.

Other

Presented in the table below is information for Other:

(In millions)	For the Three Months Ended September 30, 2023	For the Three Months Ended September 30, 2022	For the Nine Months Ended September 30, 2023	For the Nine Months Ended September 30, 2022
Operating revenues	$ 72	$ 79	$ 242	$ 215
Operation and maintenance	68	61	205	165
Depreciation and amortization	3	3	8	12
Interest expense	(25)	(30)	(73)	(90)
Interest income	16	13	38	38
Provision (benefit) for income taxes	—	(1)	2	3
Net income (loss) attributable to common shareholders	(8)	(5)	(10)	(8)

Operating Revenues

For the three months ended September 30, 2023, operating revenues decreased $7 million, due to timing of capital projects in MSG and the Contract Services Group businesses.

For the nine months ended September 30, 2023, operating revenues increased $27 million, from an increase in capital projects in MSG, primarily at the United States Military Academy at West Point, New York and revenue for Naval Station Mayport. The Naval Station Mayport contract was awarded on June 30, 2022, with the performance start date for operation on March 1, 2023.

Operation and Maintenance

For the three months ended September 30, 2023, operation and maintenance expense increased $7 million, primarily due to employee related costs.

For the nine months ended September 30, 2023, operation and maintenance expense increased $40 million, primarily due to costs associated with the increased capital projects in MSG and employee related costs.

Legislative Updates

During 2023, the Company's regulatory jurisdictions enacted the following legislation that has been approved and is effective as of November 1, 2023:

- California passed Senate Bill 1469, which allows the CPUC to consider and authorize the implementation of a mechanism that separates the water corporation's revenue and its water sales. Legislation was signed by the Governor on September 30, 2022, and was effective on January 1, 2023.
- Indiana passed House Bill 1417, which allows for deferred accounting and subsequent recovery through rates of regulatory assets, with or without Indiana Utility Regulatory Commission (the "IURC") approval. There are several requirements: (i) the costs must be deferred as a regulatory asset, (ii) only incremental costs may be deferred, and (iii) the IURC must find the costs to be reasonable and prudent. Legislation was signed by the Governor and became effective on April 20, 2023.
- Indiana passed Senate Bill 180, which allows for consolidated revenue to support post-acquisition capital improvements in wastewater systems via a service enhancement improvement recovery mechanism. Legislation was signed by the Governor and became effective on May 1, 2023.
- Illinois passed House Bill 1105, which provides that property belonging to a public utility that provides water or sewer service may not be taken or damaged by eminent domain without prior approval from the Illinois Commerce Commission. Legislation was signed by the Governor and became effective on June 9, 2023.
- Illinois passed Senate Bill 250 (Public Act 103-0006), which contains supplemental appropriations for the previous fiscal year 2023 and appropriations for fiscal year 2024. This bill contains a $5 million appropriation to the Department of Commerce and Economic Opportunity for purposes of grants pursuant to the Water and Sewer Financial Assistance Act (Public Act 102-262), which was an initiative of the Company's Illinois subsidiary during the 102nd General Assembly. Legislation was signed by the Governor on June 7, 2023, and the appropriation became effective July 1, 2023.

- California passed Senate Bill 122, which authorizes $300 million in additional funding for the California Water and Wastewater Arrearage Payment Program, and extends the eligibility date from March 2020 to June 2021, to March 2020 to December 2022. Legislation was signed and became effective on July 10, 2023.

During 2023, the State of California enacted the following legislation that was signed into law on October 7, 2023:

- California passed Senate Bill 253, which requires any public or private company that does business in California and has over $1 billion in annual revenue to publicly disclose, beginning in 2026, scope 1, 2, and 3 greenhouse gas emissions released from their operations and supply chain.
- California passed Senate Bill 261, which requires companies doing business in California with greater than $500 million in annual revenues to prepare, beginning in 2026, biennial reports disclosing climate-related financial risk.

Condemnation and Eminent Domain

All or portions of the Regulated Businesses' utility assets could be acquired by state, municipal or other government entities through one or more of the following methods: (i) eminent domain (also known as condemnation); (ii) the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity ("CPCN") was granted; and (iii) the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its CPCN. The acquisition consideration related to such a proceeding initiated by a local government may be determined consistent with applicable eminent domain law or may be negotiated or fixed by appraisers as prescribed by the law of the state or the jurisdiction of the particular CPCN.

As such, the Regulated Businesses are periodically subject to condemnation proceedings in the ordinary course of business. For example, Cal Am's Monterey system assets are the subject of a potential condemnation action by the Monterey Peninsula Water Management District (the "MPWMD") stemming from a November 2018 public ballot initiative. In 2019, the MPWMD issued a preliminary valuation and cost of service analysis report, finding in part that (1) an estimate of the Monterey system assets' total value plus adjustments would be approximately $513 million, (2) the cost of service modeling results indicate significant annual reductions in revenue requirements and projected monthly water bills, and (3) the acquisition of the Monterey system assets by the MPWMD would be economically feasible. In 2020, the MPWMD certified a final environmental impact report, analyzing the environmental impacts of the MPWMD's project to (1) acquire the Monterey system assets through the power of eminent domain, if necessary, and (2) expand its geographic boundaries to include all parts of this system.

In February 2021, the MPWMD filed an application with the Local Agency Formation Commission of Monterey County ("LAFCO") seeking approval to become a retail water provider and annex approximately 58 parcels of land into the MPWMD's boundaries. In June 2021, LAFCO's commissioners voted to require a third-party independent financial study as to the feasibility of an acquisition by the MPWMD of the Monterey system assets. In December 2021, LAFCO's commissioners denied the MPWMD's application to become a retail water provider, determining that the MPWMD does not have the authority to proceed with a condemnation of the Monterey system assets. On April 1, 2022, the MPWMD filed a lawsuit against LAFCO challenging its decision to deny the MPWMD's application seeking approval to become a retail water provider.

By letter dated October 3, 2022, the MPWMD notified Cal Am of a decision to appraise the Monterey system assets and requesting access to a number of Cal Am's properties and documents to assist the MPWMD with such an appraisal. Cal Am responded by letter on October 24, 2022, denying the request for access, stating that the MPWMD does not have the right to appraise Cal Am's system without LAFCO approval to become a retail water provider. On April 28, 2023, Cal Am rejected an offer by the MPWMD to purchase the Monterey system assets for $448.8 million.

Over the written and oral objections of Cal Am, at a hearing held on October 10, 2023, the MPWMD adopted a resolution of necessity to authorize it to file an eminent domain lawsuit with respect to the Monterey system assets. While the Company cannot currently predict the outcome of any such lawsuit, the Company believes that, given existing legal precedent related to similar attempts by public agencies in California to take over water systems, Cal Am should be able to defend itself successfully against an eminent domain lawsuit by the MPWMD. For more information on legal proceedings associated with this matter, see Item 3—Legal Proceedings in the Form 10-K and Part II, Item 1—Legal Proceedings—Proposed Acquisition of Monterey System Assets—Local Area Formation Commission Litigation in this Form 10-Q.

On October 25, 2023, the Monterey County Superior Court issued an Intended Statement of Decision to issue a writ of mandate directing LAFCO to vacate and set aside its original denial of the MPWMD's application to serve as a retail water provider (in conjunction with its effort to acquire the Monterey water system assets) and to reconsider the application in compliance with all applicable law. The court held that LAFCO incorrectly applied two statutory standards and noted a lack of sufficient evidence to support certain of LAFCO's factual findings. Once the writ of mandate is issued, the LAFCO denial will be nullified and LAFCO will be required to hold another hearing on the MPWMD's application. Cal Am is evaluating potential actions relative to the writ of mandate, including filing an appeal or other challenge and/or making suitable presentations at a subsequent LAFCO rehearing.

Furthermore, the law in certain jurisdictions in which the Regulated Businesses operate provides for eminent domain rights allowing private property owners to file a lawsuit to seek just compensation against a public utility, if a public utility's infrastructure has been determined to be a substantial cause of damage to that property. In these actions, the plaintiff would not have to prove that the public utility acted negligently. In California, for example, lawsuits have been filed in connection with large-scale natural events such as wildfires. Some of these lawsuits have included allegations that infrastructure of certain utilities triggered the natural event that resulted in damage to the property. In some cases, the PUC has allowed certain costs or losses incurred by the utility to be recovered from customers in rates, but in other cases such recovery in rates has been disallowed. Also, the utility may have obtained insurance that could respond to some or all of such losses, although the utility would be at risk for any losses not ultimately subject to rate or insurance recovery or losses that exceed the limits of such insurance.

Tax Matters

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law. The IRA contains a Corporate Alternative Minimum Tax ("CAMT") provision, effective January 1, 2023. To determine if a company is considered an applicable corporation subject to CAMT, the company's average adjusted financial statement income ("AFSI") for the three consecutive years preceding the tax year must exceed $1 billion. An applicable corporation must make several adjustments to net income when determining AFSI. The Company evaluated the potential impacts of the CAMT provision within the IRA and believes it does not exceed the $1 billion AFSI threshold, and therefore, is not currently subject to CAMT in 2023. The Company is continuing to assess the impact of the initial guidance regarding the application of the CAMT and will continue to monitor as additional guidance is released.

Liquidity and Capital Resources

For a general overview of the sources and uses of capital resources, see the introductory discussion in Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources in the Company's Form 10-K.

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets, future issuances of equity, and, if and to the extent necessary, borrowings under American Water Capital Corp.'s ("AWCC") revolving credit facility.

The Company expects to fund future maturities of long-term debt through a combination of external debt and, to the extent available, cash flows from operations. Since the Company expects its capital investments over the next few years to be greater than its cash flows from operating activities, the Company currently plans to fund the excess of its capital investments over its cash flows from operating activities for the next five years through a combination of long-term debt and equity issuances, in addition to the remaining proceeds from the sale of HOS. The remaining proceeds from the sale of HOS include receipt of a seller promissory note, plus interest, and a contingent cash payment payable upon satisfaction of certain conditions on or before December 31, 2023. If necessary, the Company may delay certain capital investments or other funding requirements or pursue financing from other sources to preserve liquidity. In this event, the Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

On March 3, 2023, the Company completed an underwritten public offering of an aggregate of 12,650,000 shares of parent company common stock. Upon closing of this offering, the Company received, after deduction of the underwriting discount and before deduction of offering expenses, net proceeds of approximately $1,688 million. The Company used the net proceeds of the offering to repay short-term commercial paper obligations of AWCC, the wholly owned finance subsidiary of parent company, and for general corporate purposes.

On June 29, 2023, AWCC issued $1,035 million aggregate principal amount of 3.625% Exchangeable Senior Notes due 2026 (the "Notes"). AWCC received net proceeds of approximately $1,022 million, after deduction of underwriting discounts and commissions but before deduction of offering expenses payable by AWCC. A portion of the net proceeds was used to repay AWCC's commercial paper obligations and the remainder is being used for general corporate purposes. See Note 7—Long-Term Debt in the Notes to Consolidated Financial Statements for additional information.

The Company's revolving credit facility provides $2.75 billion in aggregate total commitments from a diversified group of financial institutions. The revolving credit facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support, and to provide for the issuance of up to $150 million in letters of credit. The maximum aggregate principal amount of short-term borrowings authorized for issuance under AWCC's commercial paper program is $2.60 billion. On October 26, 2023, the termination date of the credit agreement with respect to AWCC's revolving credit facility was extended, as permitted by the terms of the credit agreement, from October 2027 to October 2028. Subject to satisfying certain conditions, the credit agreement also permits AWCC to increase the maximum commitment under the facility by up to an aggregate of $500 million and to request extensions of its expiration date for up to two one-year periods, as to which one such extension request remains. As of September 30, 2023 and December 31, 2022, there were no borrowings under the revolving credit facility. As of September 30, 2023 and December 31, 2022, there were $75 million and $78 million, respectively, of outstanding letters of credit under the revolving credit facility. At September 30, 2023, there was no outstanding short-term debt. In the second quarter of 2023, the net proceeds of the Notes were used to repay the short-term commercial paper obligations. At December 31, 2022, the weighted-average interest rate on AWCC's outstanding short-term borrowings was approximately 4.41%.

Presented in the tables below is the aggregate credit facility commitments, commercial paper limit and letter of credit availability under the revolving credit facility as of September 30, 2023 and December 31, 2022, as well as the available capacity for each:

	As of September 30, 2023		
(In millions)	**Commercial Paper Limit**	**Letters of Credit**	**Total (a)**
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	—	(75)	(75)
Remaining availability as of September 30, 2023	$ 2,600	$ 75	$ 2,675

(a) Total remaining availability of $2.68 billion as of September 30, 2023, may be accessed through revolver draws.

	As of December 31, 2022		
(In millions)	**Commercial Paper Limit**	**Letters of Credit**	**Total (a)**
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(1,177)	(78)	(1,255)
Remaining availability as of December 31, 2022	$ 1,423	$ 72	$ 1,495

(a) Total remaining availability of $1.50 billion as of December 31, 2022, was accessible through revolver draws.

Presented in the table below is the Company's total available liquidity as of September 30, 2023 and December 31, 2022, respectively:

(In millions)	**Cash and Cash Equivalents**	**Availability on Revolving Credit Facility**	**Total Available Liquidity**
Available liquidity as of September 30, 2023	$ 628	$ 2,675	$ 3,303
Available liquidity as of December 31, 2022	$ 85	$ 1,495	$ 1,580

The Company believes that its ability to access the debt and equity capital markets, the revolving credit facility and cash flows from operations will generate sufficient cash to fund the Company's short-term requirements. The Company believes it has sufficient liquidity and the ability to manage its expenditures, should there be a disruption of the capital and credit markets. However, there can be no assurance that the lenders will be able to meet existing commitments to AWCC under the revolving credit facility, or that AWCC will be able to access the commercial paper or loan markets in the future on acceptable terms or at all. See Note 8—Short-Term Debt in the Notes to Consolidated Financial Statements for additional information.

During 2022 and the first half of 2023, the Company had entered into 11 treasury lock agreements, each with a term of 10 years, with notional amounts totaling $300 million. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In June 2023, the Company terminated the treasury lock agreements realizing a net gain of $3 million included in Other, net in the accompanying Consolidated Statements of Operations.

No ineffectiveness was recognized on hedging instruments for the three and nine months ended September 30, 2023 or 2022.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the warmer months. Presented in the table below is a summary of the major items affecting the Company's cash flows from operating activities:

	For the Nine Months Ended September 30,	
	2023	**2022**
(In millions)		
Net income	$ 773	$ 673
Add (less):		
Depreciation and amortization	523	485
Deferred income taxes and amortization of investment tax credits	129	13
Other non-cash activities (a)	(13)	(51)
Changes in working capital (b)	(31)	(316)
Pension and non-pension postretirement benefit contributions	(34)	(40)
Net cash provided by operating activities	$ 1,347	$ 764

(a) Includes provision for losses on accounts receivable, pension and non-pension postretirement benefits and other non-cash, net. Details of each component can be found on the Consolidated Statements of Cash Flows.

(b) Changes in working capital include changes to receivables and unbilled revenues, income tax receivable, accounts payable, accrued liabilities, accrued taxes and other current assets and liabilities, net.

For the nine months ended September 30, 2023, cash provided by operating activities increased $583 million, primarily due to changes in deferred taxes and working capital. The change in deferred taxes was driven by the settlement of the deferred tax liability related to the Company's New York regulated operations that was sold in the first quarter of 2022. The changes in working capital were driven by $280 million of estimated tax payments for taxable gains on the sales of the Company's Homeowner Services Group and its New York regulated operations in the first half of 2022.

Cash Flows from Investing Activities

Presented in the table below is a summary of the major items affecting the Company's cash flows from investing activities:

	For the Nine Months Ended September 30,	
	2023	**2022**
(In millions)		
Net capital expenditures	$ (1,779)	$ (1,597)
Acquisitions, net of cash acquired	(36)	(288)
Net proceeds from sale of assets	—	608
Other investing activities, net (a)	(113)	(85)
Net cash used in investing activities	$ (1,928)	$ (1,362)

(a) Includes removal costs from property, plant and equipment retirements.

For the nine months ended September 30, 2023, cash used in investing activities increased $566 million, primarily due to proceeds received from the sale of the Company's New York operations in the first quarter of 2022.

Cash Flows from Financing Activities

Presented in the table below is a summary of the major items affecting the Company's cash flows from financing activities:

	For the Nine Months Ended September 30,	
(In millions)	2023	2022
Proceeds from long-term debt	$ 1,246	$ 822
Repayments of long-term debt	(263)	(14)
Net proceeds from common stock financing	1,688	—
Net short-term repayments with maturities less than three months	(1,175)	50
Debt issuance costs and make-whole premium on early debt redemption	(15)	(7)
Dividends paid	(395)	(348)
Other financing activities, net (a)	39	63
Net cash provided by financing activities	$ 1,125	$ 566

(a) Includes proceeds from issuances of common stock under various employee stock plans and the Company's dividend reinvestment and direct stock purchase plan, net of taxes paid, and advances and contributions in aid of construction, net of refunds.

For the nine months ended September 30, 2023, cash provided by financing activities increased $559 million, primarily due to the common stock financing and issuance of long-term debt. This was partially offset by repayment in full of the short-term commercial paper obligations during the first half of 2023.

Debt Covenants

The Company's debt agreements contain financial and non-financial covenants. To the extent that the Company is not in compliance with these covenants, an event of default may occur under one or more debt agreements and the Company, or its subsidiaries, may be restricted in its ability to pay dividends, issue new debt or access the revolving credit facility. The long-term debt indentures contain a number of covenants that, among other things, prohibit or restrict the Company from issuing debt secured by the Company's assets, subject to certain exceptions. Failure to comply with any of these covenants could accelerate repayment obligations.

Covenants in certain long-term notes and the revolving credit facility require the Company to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. On September 30, 2023, the Company's ratio was 0.55 to 1.00 and therefore the Company was in compliance with the covenants.

Security Ratings

Presented in the table below are long-term and short-term credit ratings and rating outlooks as of November 1, 2023, as issued by Moody's Investors Service on December 19, 2022, and S&P Global Ratings on February 6, 2023:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Rating outlook	Stable	Stable
Senior unsecured debt	Baa1	A
Commercial paper	P-2	A-1

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon the ability to generate cash flows in an amount sufficient to service debt and meet investment plans. The Company can provide no assurances that its ability to generate cash flows is sufficient to maintain its existing ratings. None of the Company's borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under its credit facility.

As part of its normal course of business, the Company routinely enters into contracts for the purchase and sale of water, energy, chemicals and other services. These contracts either contain express provisions or otherwise permit the Company and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that the Company must provide collateral to secure its obligations. The Company does not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

Access to the capital markets, including the commercial paper market, and respective financing costs in those markets, may be directly affected by the Company's securities ratings. The Company primarily accesses the debt capital markets, including the commercial paper market, through AWCC. However, the Company has also issued debt through its regulated subsidiaries, primarily in the form of mortgage bonds and tax-exempt securities or borrowings under state revolving funds, to lower the overall cost of debt.

Dividends

For discussion of the Company's dividends, see Note 6—Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information.

Application of Critical Accounting Policies and Estimates

The financial condition of the Company, results of operations and cash flows, as reflected in the Company's Consolidated Financial statements, are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates in the Company's Form 10-K for a discussion of its critical accounting policies. Additionally, see Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for updates, if any, to the significant accounting policies previously disclosed in the Company's Form 10-K.

Recent Accounting Standards

See Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for a description of new accounting standards recently adopted or pending adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk in the normal course of business, including changes in commodity prices, equity prices and interest rates. For further discussion of its exposure to market risk, see Part II, Item 7A—Quantitative and Qualitative Disclosures about Market Risk in the Company's Form 10-K. There have been no significant changes to the Company's exposure to market risk since December 31, 2022.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

American Water maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 2023.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of September 30, 2023, the Company's disclosure controls and procedures were effective at a reasonable level of assurance.

Changes in Internal Control over Financial Reporting

The Company concluded that there have been no changes in internal control over financial reporting that occurred during the three months ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The following information updates and amends the information provided in the Company's Form 10-K in Item 3—Legal Proceedings, and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2023. Capitalized terms used but not otherwise defined herein have the meanings set forth in the Company's Form 10-K. In accordance with the SEC's disclosure rules, the Company has elected to disclose environmental proceedings involving the Company and a governmental authority if the amount of potential monetary sanctions, exclusive of interest and costs, that the Company reasonably believes will result from such proceeding is $1 million or more.

Alternative Water Supply in Lieu of Carmel River Diversions

Monterey Peninsula Water Supply Project

Desalination Plant Development Permit

On September 8, 2023, the court of appeal issued its opinion reversing the trial court's determination in favor of MCWD as to the statement of overriding considerations and rejecting MCWD's appeals on all of its claims that the Monterey County Superior Court had denied. On September 25, 2023, MCWD filed a petition for rehearing in the court of appeal, which was denied on October 4, 2023.

Proposed Acquisition of Monterey System Assets — Local Area Formation Commission Litigation

Over the written and oral objections of Cal Am, at a hearing held on October 10, 2023, the MPWMD adopted a resolution of necessity to authorize it to file an eminent domain lawsuit with respect to the Monterey system assets. If such a lawsuit is filed, Cal Am would seek dismissal or take other action to assert what it believes would be meritorious defenses against the MPWMD's claims. While the Company cannot currently predict the outcome of any such lawsuit, the Company believes that, given existing legal precedent related to similar attempts by public agencies in California to take over water systems, Cal Am should be able to defend itself successfully against an eminent domain lawsuit by the MPWMD.

On October 25, 2023, the Monterey County Superior Court issued an Intended Statement of Decision to issue a writ of mandate directing LAFCO to vacate and set aside its original denial of the MPWMD's application to serve as a retail water provider (in conjunction with its effort to acquire the Monterey water system assets) and to reconsider the application in compliance with all applicable law. The court held that LAFCO incorrectly applied two statutory standards and noted a lack of sufficient evidence to support certain of LAFCO's factual findings. Once the writ of mandate is issued, the LAFCO denial will be nullified and LAFCO will be required to hold another hearing on the MPWMD's application. Cal Am is evaluating potential actions relative to the writ of mandate, including filing an appeal or other challenge and/or making suitable presentations at a subsequent LAFCO rehearing.

Dunbar, West Virginia Water Main Break Class Action Litigation

On August 21, 2023, the Circuit Court set a trial date of September 9, 2024, to determine certain liability issues but not to consider class-wide or punitive damages. The Company and WVAWC believe that WVAWC has valid, meritorious defenses to the claims raised in this class action complaint, and WVAWC will continue to vigorously defend itself against these allegations.

Chattanooga, Tennessee Class Action Litigation

On September 21, 2023, the Circuit Court held a hearing on the Tennessee Plaintiffs' motion for reconsideration of the court's January 12, 2023, oral ruling denying their motion for class certification. The court upheld its prior ruling but gave the Tennessee Plaintiffs the option to file an amended class definition. On October 12, 2023, the Tennessee Plaintiffs filed an amended class definition seeking certification of a business customer-only class. An order denying the original proposed class and addressing the proposed amended class has not been entered by the court and remains pending.

PFAS Multi-District Litigation

Several of the Company's utility subsidiaries are parties to a multi-district litigation (the "MDL") lawsuit, which commenced on December 7, 2018, in U.S. District Court for the District of South Carolina, against manufacturers of certain PFAS for damages, contribution and reimbursement of costs incurred and continuing to be incurred to address the presence of such PFAS in public water supply systems owned and operated by these utility subsidiaries and throughout their service areas. In August 2023, a potential class action settlement involving defendants The Chemours Company, Corteva, Inc. and DuPont de Nemours, Inc. to resolve claims brought in the MDL against them by public water systems, and a similar class action settlement with defendant 3M Company, received preliminary approval from the MDL court. The Company is monitoring ongoing litigation and settlement activity with manufacturers of PFAS in this proceeding for potential impacts to the various claims asserted by the Company, including deadlines set in the MDL of December 4, 2023 and December 11, 2023 for water utilities, including the Company, to opt out of the settlements.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, readers should carefully consider the factors discussed in Item 1A—Risk Factors in the Form 10-K, and in the Company's other filings with the SEC, which could materially affect the Company's business, financial condition, cash flows or future results. There have been no material changes from the risk factors previously disclosed in Item 1A—Risk Factors in the Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In February 2015, the Board of Directors authorized an anti-dilutive stock repurchase program to mitigate the dilutive effect of shares issued through the Company's dividend reinvestment and direct stock purchase plan and employee stock purchase and executive compensation activities. The program allows the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time in the open market or through privately negotiated transactions. The program is conducted in accordance with Rule 10b-18 of the Exchange Act, and, to facilitate these repurchases, the Company enters into Rule 10b5-1 stock repurchase plans with a third-party broker, which allow the Company to repurchase shares of its common stock at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the program or the stock repurchase parameters at its discretion to manage dilution.

The Company did not repurchase shares of common stock during the three months ended September 30, 2023. From April 1, 2015, the date repurchases under the anti-dilutive stock repurchase program commenced, through September 30, 2023, the Company repurchased an aggregate of 4,860,000 shares of common stock under the program, leaving an aggregate of 5,140,000 shares available for repurchase under this program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, File No. 001-34028, filed December 8, 2022).
4.1	Indenture, dated as of June 29, 2023, among American Water Capital Corp., American Water Works Company, Inc. and U.S. Bank Trust Company, National Association (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, File No. 001-34028, filed June 29, 2023).
*10.1	Extension Agreement, dated as of October 26, 2023, by and among American Water Works Company, Inc., American Water Capital Corp., each of the Lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent.
*31.1	Certification of M. Susan Hardwick, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of John C. Griffith, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
**32.1	Certification of M. Susan Hardwick, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
**32.2	Certification of John C. Griffith, Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 1st day of November, 2023.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

By /s/ M. SUSAN HARDWICK
M. Susan Hardwick
President and Chief Executive Officer
(Principal Executive Officer)

By /s/ JOHN C. GRIFFITH
John C. Griffith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/ MELISSA K. WIKLE
Melissa K. Wikle
Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 10.1

Execution Version

EXTENSION AGREEMENT

This **EXTENSION AGREEMENT** (this "Agreement"), dated as of October 26, 2023, is entered into among **AMERICAN WATER CAPITAL CORP.**, a Delaware corporation ("AWCC" or the "Borrower"), the Lenders party hereto, and Wells Fargo Bank, National Association, as administrative agent for the Lenders (the "Administrative Agent").

RECITALS

AWCC, the Lenders and the Administrative Agent are parties to that certain Third Amended and Restated Credit Agreement, dated as of October 26, 2022, as amended (the "Credit Agreement"). Capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Credit Agreement.

AWCC has requested its first one-year extension of the Termination Date pursuant to Section 2.06(b) of the Credit Agreement and each Lender executing this Agreement as an "Extending Lender" (each, an "Extending Lender") has approved such request pursuant to Section 2.06(b) of the Credit Agreement.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Extension. Pursuant to Section 2.06(b) of the Credit Agreement, the Borrower requested an extension of the Termination Date for a period of one year from October 26, 2027 to October 26, 2028 (the "Extension"). As of the date hereof, the Extending Lenders constituting the Required Lenders have agreed to extend (such agreement evidenced by their execution of this Agreement) the Termination Date as to the Extending Lenders for a period of one year from October 26, 2027 to October 26, 2028. Subject to the satisfaction of the conditions in Section 3 hereof, the Termination Date as to the Extending Lenders is hereby extended to October 26, 2028. The Termination Date as to each Non-Extending Lender remains unchanged, subject to the right of the Borrower pursuant to Section 2.06(e) of the Credit Agreement to require any Non-Extending Lender to assign to one or more Eligible Assignees all of its rights and obligations under the Credit Agreement.

2. Limited Waiver. Subject to the satisfaction of the conditions set forth in Section 3 hereof, the Required Lenders hereby waive the various notice requirements contained in Section 2.06(b) of the Credit Agreement.

3. Conditions to Effectiveness. The Extension set forth in Section 1 and the limited waiver set forth in Section 2 shall become effective as of the date (the "Effective Date") on which each of the following conditions precedent shall have been satisfied:

a. The Administrative Agent shall have received counterparts of this Agreement duly executed by AWCC, the Parent (solely for purposes of acknowledging Section 4), the Administrative Agent and Extending Lenders constituting the Required Lenders.

b. AWCC shall have paid the fees and reasonable expenses required to be paid on or prior to the Effective Date under that certain fee letter, dated as of October 26, 2023, among AWCC, Wells Fargo Securities, LLC, and Wells Fargo Bank, National Association, including but not limited to an extension fee equal to 0.06% of each Extending Lender's Commitment as of the Effective Date, and all other fees and reasonable expenses of the

Administrative Agent and the Lenders required under the Credit Agreement and any other Loan Document to be paid on or prior to the Effective Date (including reasonable fees and expenses of counsel) in connection with this Agreement.

c. The Administrative Agent shall have received a certificate of a Responsible Officer of AWCC, dated as of the Effective Date, confirming satisfaction of the conditions set forth in Sections 3.02(b) and 3.02(c) of the Credit Agreement (with all references in such Sections to a Borrowing or Swingline Borrowing being deemed to be references to the Extension).

d. The Administrative Agent shall have received copies (certified to be true and complete by a Responsible Officer of the Borrower) of all governmental approvals (if any) required for each of the Borrower and the Parent in connection with the Extension.

4. Reaffirmation. The Parent hereby confirms and agrees that after giving effect to this Agreement and the Extension, the Obligations owing by the Borrower under the Credit Agreement constitute “Debt” under the Support Agreement. The Parent acknowledges that the Administrative Agent and the Extending Lenders would not enter into this Agreement in the absence of the acknowledgment and confirmation contained herein.

5. Full Force and Effect. Except as expressly modified hereby, the Credit Agreement and the Loan Documents shall continue in full force and effect in accordance with the provisions thereof on the date hereof. As used in the Credit Agreement, “hereinafter,” “hereto,” “hereof,” and words of similar import shall, unless the context otherwise requires, mean the Credit Agreement after giving effect to this Agreement. Any reference to the Credit Agreement or any of the other Loan Documents herein or in any such documents shall refer to the Credit Agreement and Loan Documents as modified hereby. This Agreement is limited as specified and shall not constitute or be deemed to constitute an amendment, modification or waiver of any provision of the Credit Agreement or any Loan Document except as expressly set forth herein. This Agreement shall constitute a Loan Document under the terms of the Credit Agreement.

6. Severability of Provisions. Any provision in this Agreement that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction.

7. Successors and Assigns. The terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto.

8. Expenses. The Borrower agrees on demand (i) to pay all reasonable fees and expenses of counsel to the Administrative Agent, and (ii) to reimburse the Administrative Agent for all reasonable out-of-pocket costs and expenses, in each case, in connection with the preparation, negotiation, execution and delivery of this Agreement.

9. Applicable Law. This Agreement shall be construed in accordance with and governed by the laws of the State of New York.

10. Construction. The headings of the various sections and subsections of this Agreement have been inserted for convenience only and shall not in any way affect the meaning or construction of any of the provisions hereof.

11. Counterparts; Electronic Delivery. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which taken together shall constitute one and the same instrument. Delivery by any party to this Agreement of its signatures hereon through facsimile or other electronic image file (including .pdf) may be relied upon as if this Agreement were physically delivered with an original hand-written signature of such party and shall be binding on such party for all purposes.

[*remainder of page intentionally blank*]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

AMERICAN WATER CAPITAL CORP.

By: /s/ David Bowler
Name: David Bowler
Title: Vice President and Treasurer

Acknowledged and agreed solely as to Section 4 of this Agreement:

AMERICAN WATER WORKS COMPANY, INC.

By: /s/ David Bowler
Name: David Bowler
Title: Senior Vice President, Deputy Chief Financial Officer and Treasurer

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Administrative Agent, an LC Issuing Bank, a Swingline Bank and an Extending Lender

By: /s/ Whitney Shellenberg
Name: Whitney Shellenberg
Title: Vice President

JPMORGAN CHASE BANK, N.A., as an LC Issuing Bank and an Extending Lender

By: /s/ Joseph Oswin
Name: Joseph Oswin
Title: Executive Director

BANK OF AMERICA, N.A., as an Extending Lender

By: /s/ Dilcia Pena Hill
Name: Dilcia P. Hill
Title: Senior Vice President

MIZUHO BANK, LTD, as an Extending Lender

By: /s/ Edward Sacks
Name: Edward Sacks
Title: Authorized Signatory

PNC BANK, NATIONAL ASSOCIATION, as an Extending Lender

By: /s/ Meredith L. Jermann
Name: Meridith L. Jermann
Title: Vice President

ROYAL BANK OF CANADA, as an Extending Lender

By: /s/ Martina Wellik
Name: Martina Wellik
Title: Authorized Signatory

U.S. Bank National Association, as an Extending Lender

By: /s/ James O’Shaughnessy
Name: James O’Shaughnessy
Title: Senior Vice President

TD BANK, N.A., as an Extending Lender

By: /s/ Steve Levi
Name: Steve Levi
Title: Senior Vice President

TRUIST BANK, as an Extending Lender

By: /s/ Justin Lien
Name: Justin Lien
Title: Director

REGIONS BANK, as an Extending Lender

By: /s/ Daniel Capps
Name: Daniel Capps
Title: Director

THE BANK OF NOVA SCOTIA, as an Extending Lender

By: /s/ David Dewar
Name: David Dewar
Title: Director

THE HUNTINGTON NATIONAL BANK, as an Extending Lender

By: /s/ Christopher Olsen
Name: Christopher Olsen
Title: Vice President

THE BANK OF NEW YORK MELLON, as an Extending Lender

By: /s/ Molly H. Ross
Name: Molly H. Ross
Title: Senior Vice President

THE NORTHERN TRUST COMPANY, as an Extending Lender

By: /s/ Andrew D. Holtz
Name: Andrew D. Holtz
Title: Senior Vice President

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, M. Susan Hardwick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2023

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, John C. Griffith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2023

By: /s/ JOHN C. GRIFFITH

John C. Griffith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Susan Hardwick, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick
President and Chief Executive Officer
(Principal Executive Officer)

November 1, 2023

Exhibit 32.2

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John C. Griffith, Executive Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JOHN C. GRIFFITH

John C. Griffith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

November 1, 2023