
**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 June 30, 2021

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

(State or other jurisdiction of incorporation or organization)

51-0063696

(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:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
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.

<u>Class</u>	<u>Shares Outstanding as of July 27, 2021</u>
Common Stock, par value \$0.01 per share	181,495,720

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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.

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; rate and revenue adjustments, including through general rate case filings, filings for infrastructure surcharges and other governmental agency authorizations and filings to address regulatory lag; growth and portfolio optimization strategies, including the timing and outcome of pending or future acquisition activity, the completion of the announced sale of the Company’s New York subsidiary and the amount of proceeds anticipated to be received therefrom; the ability of the Company’s California subsidiary to obtain adequate alternative water supplies in lieu of diversions from the Carmel River and to comply with certain regulatory orders and interpretations thereof with respect to such diversions; the amount and allocation of projected capital expenditures and related funding requirements; the Company’s ability to repay or refinance debt; the ability to execute its current and long-term business, operational and capital expenditures strategies; its 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 investigations and proceedings and related potential fines, penalties and other sanctions; the ability to complete, and the timing and efficacy of, the design, development, implementation and improvement of technology and other strategic initiatives; the impacts to the Company of the pandemic health event resulting from COVID-19; the ability to capitalize on existing or future utility privatization opportunities; trends in the 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 and regulatory responses to the COVID-19 pandemic;
- 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, such as may result from conservation efforts, impacts of the COVID-19 pandemic, 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, the COVID-19 pandemic, or other factors;
- changes in laws, governmental regulations and policies, including with respect to the environment, health and safety, consumer and data privacy, 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;
- 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 and 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 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 adequate and cost-effective supplies of equipment (including personal protective equipment), chemicals, electricity, fuel, water and other raw materials;
- the Company's ability to successfully meet growth projections for the Regulated Businesses and the Market-Based Businesses (each as defined in this Form 10-Q), 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 and market-based businesses;
 - entering into contracts and other agreements with, or otherwise obtaining, new customers or partnerships in the Market-Based Businesses; and
 - realizing anticipated benefits and synergies from new acquisitions;
- 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;
- changes in general economic, political, business and financial market conditions, including without limitation conditions and collateral consequences associated with the COVID-19 pandemic health event;
- access to sufficient debt and/or equity capital on satisfactory terms and when and as needed to support operations and capital expenditures;
- fluctuations in interest rates;
- 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 or other communications 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 benefit plan assets and liabilities that could increase the Company's cost and funding requirements;
- changes in federal or state general, income and other tax laws, including (i) future significant tax legislation, (ii) further rules, regulations, interpretations and guidance by the U.S. Department of the Treasury and state or local taxing authorities related to the enactment of the Tax Cuts and Jobs Act of 2017 (the "TCJA"), (iii) the availability of, or the Company's compliance with, the terms of applicable tax credits and tax abatement programs, and (iv) the Company's ability to utilize its U.S. federal and state income tax net operating loss carryforwards;
- migration of customers into or out of the Company's service territories;
- 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, 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 related to the Company's goodwill or other assets;
- labor actions, including work stoppages and strikes;
- the Company's ability to retain and attract qualified employees;
- 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, 2020 (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)

	June 30, 2021	December 31, 2020
ASSETS		
Property, plant and equipment	\$ 26,369	\$ 25,614
Accumulated depreciation	(6,155)	(5,904)
Property, plant and equipment, net	20,214	19,710
Current assets:		
Cash and cash equivalents	70	547
Restricted funds	34	29
Accounts receivable, net of allowance for uncollectible accounts of \$70 and \$60, respectively	311	321
Unbilled revenues	254	206
Materials and supplies	52	47
Assets held for sale	666	629
Other	183	127
Total current assets	1,570	1,906
Regulatory and other long-term assets:		
Regulatory assets	1,145	1,127
Operating lease right-of-use assets	94	95
Goodwill	1,511	1,504
Postretirement benefit assets	168	173
Intangible assets	50	55
Other	200	196
Total regulatory and other long-term assets	3,168	3,150
Total assets	\$ 24,952	\$ 24,766

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)

	June 30, 2021	December 31, 2020
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock (\$0.01 par value; 500,000,000 shares authorized; 186,754,591 and 186,466,707 shares issued, respectively)	\$ 2	\$ 2
Paid-in-capital	6,765	6,747
Retained earnings	332	102
Accumulated other comprehensive loss	(46)	(49)
Treasury stock, at cost (5,260,064 and 5,168,215 shares, respectively)	(363)	(348)
Total common shareholders' equity	6,690	6,454
Long-term debt	10,343	9,329
Redeemable preferred stock at redemption value	3	4
Total long-term debt	10,346	9,333
Total capitalization	17,036	15,787
Current liabilities:		
Short-term debt	606	1,282
Current portion of long-term debt	49	329
Accounts payable	146	189
Accrued liabilities	506	591
Accrued taxes	65	50
Accrued interest	89	88
Liabilities related to assets held for sale	79	137
Other	170	215
Total current liabilities	1,710	2,881
Regulatory and other long-term liabilities:		
Advances for construction	274	270
Deferred income taxes and investment tax credits	2,255	2,113
Regulatory liabilities	1,699	1,770
Operating lease liabilities	79	81
Accrued pension expense	357	388
Other	122	83
Total regulatory and other long-term liabilities	4,786	4,705
Contributions in aid of construction	1,420	1,393
Commitments and contingencies (See Note 12)		
Total capitalization and liabilities	\$ 24,952	\$ 24,766

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 June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Operating revenues	\$ 999	\$ 931	\$ 1,887	\$ 1,775
Operating expenses:				
Operation and maintenance	431	391	850	774
Depreciation and amortization	158	152	315	297
General taxes	80	75	163	152
Total operating expenses, net	669	618	1,328	1,223
Operating income	330	313	559	552
Other income (expense):				
Interest, net	(101)	(101)	(199)	(197)
Non-operating benefit costs, net	19	12	39	25
Other, net	3	8	7	11
Total other income (expense)	(79)	(81)	(153)	(161)
Income before income taxes	251	232	406	391
Provision for income taxes	44	56	66	91
Net income attributable to common shareholders	\$ 207	\$ 176	\$ 340	\$ 300
Basic earnings per share: (a)				
Net income attributable to common shareholders	\$ 1.14	\$ 0.97	\$ 1.87	\$ 1.66
Diluted earnings per share: (a)				
Net income attributable to common shareholders	\$ 1.14	\$ 0.97	\$ 1.87	\$ 1.65
Weighted-average common shares outstanding:				
Basic	182	181	181	181
Diluted	182	181	182	181

(a) Amounts may not calculate due to rounding.

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 June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Net income attributable to common shareholders	\$ 207	\$ 176	\$ 340	\$ 300
Other comprehensive income (loss), net of tax:				
Defined benefit pension plan actuarial loss, net of tax of \$1 and \$0 for the three months ended June 30, 2021 and 2020, respectively and \$1 and \$0 for the six months ended June 30, 2021 and 2020, respectively	1	—	2	1
Unrealized gain (loss) on cash flow hedges, net of tax of \$0 and \$1 for the three months ended June 30, 2021 and 2020, respectively and \$0 and \$(1) for the six months ended June 30, 2021 and 2020, respectively	1	2	1	(4)
Net other comprehensive income (loss)	2	2	3	(3)
Comprehensive income attributable to common shareholders	<u>\$ 209</u>	<u>\$ 178</u>	<u>\$ 343</u>	<u>\$ 297</u>

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 Six Months Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 340	\$ 300
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	315	297
Deferred income taxes and amortization of investment tax credits	64	96
Provision for losses on accounts receivable	18	14
Pension and non-pension postretirement benefits	(21)	(4)
Other non-cash, net	(42)	(40)
Changes in assets and liabilities:		
Receivables and unbilled revenues	(58)	(54)
Pension and postretirement benefit contributions	(18)	(22)
Accounts payable and accrued liabilities	(15)	(28)
Other assets and liabilities, net	(63)	(28)
Net cash provided by operating activities	520	531
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(752)	(870)
Acquisitions, net of cash acquired	(39)	(40)
Proceeds from sale of assets	—	2
Removal costs from property, plant and equipment retirements, net	(43)	(50)
Net cash used in investing activities	(834)	(958)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	1,102	1,163
Repayments of long-term debt	(364)	(166)
(Repayments of) proceeds from term loan	(500)	500
Net short-term borrowings with maturities less than three months	(176)	(367)
Proceeds from issuances of employee stock plans and direct stock purchase plan, net of taxes paid of \$15 and \$16 for the six months ended June 30, 2021 and 2020, respectively	(8)	2
Advances and contributions for construction, net of refunds of \$12 and \$15 for the six months ended June 30, 2021 and 2020, respectively	23	11
Debt issuance costs and make-whole premium on early debt redemption	(26)	(12)
Dividends paid	(209)	(190)
Net cash (used in) provided by financing activities	(158)	941
Net (decrease) increase in cash, cash equivalents and restricted funds	(472)	514
Cash, cash equivalents and restricted funds at beginning of period	576	91
Cash, cash equivalents and restricted funds at end of period	\$ 104	\$ 605
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid as of the end of period	\$ 226	\$ 250

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

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, 2020	186.5	\$ 2	\$ 6,747	\$ 102	\$ (49)	(5.2)	\$ (348)	\$ 6,454
Net income attributable to common shareholders	—	—	—	133	—	—	—	133
Common stock issuances (a)	0.2	—	10	—	—	(0.1)	(15)	(5)
Net other comprehensive loss	—	—	—	—	1	—	—	1
Balance as of March 31, 2021	186.7	\$ 2	\$ 6,757	\$ 235	\$ (48)	(5.3)	\$ (363)	\$ 6,583
Net income attributable to common shareholders	—	—	—	207	—	—	—	207
Common stock issuances (a)	0.1	—	8	—	—	—	—	8
Net other comprehensive loss	—	—	—	—	2	—	—	2
Dividends (\$0.6025 declared per common share)	—	—	—	(110)	—	—	—	(110)
Balance as of June 30, 2021	186.8	\$ 2	\$ 6,765	\$ 332	\$ (46)	(5.3)	\$ (363)	\$ 6,690

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

	Common Stock		Paid-in-Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Par Value				Shares	At Cost	
Balance as of December 31, 2019	185.9	\$ 2	\$ 6,700	\$ (207)	\$ (36)	(5.1)	\$ (338)	\$ 6,121
Net income attributable to common shareholders	—	—	—	124	—	—	—	124
Common stock issuances (a)	0.3	—	13	—	—	(0.1)	(10)	3
Net other comprehensive loss	—	—	—	—	(5)	—	—	(5)
Balance as of March 31, 2020	186.2	\$ 2	\$ 6,713	\$ (83)	\$ (41)	(5.2)	\$ (348)	\$ 6,243
Net income attributable to common shareholders	—	—	—	176	—	—	—	176
Common stock issuances (a)	0.2	—	17	—	—	—	—	17
Net other comprehensive loss	—	—	—	—	2	—	—	2
Dividends (\$0.55 declared per common share)	—	—	—	(100)	—	—	—	(100)
Balance as of June 30, 2020	186.4	\$ 2	\$ 6,730	\$ (7)	\$ (39)	(5.2)	\$ (348)	\$ 6,338

(a) Includes stock-based compensation, employee stock purchase plan and direct stock reinvestment and 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 June 30, 2021, 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, 2020 (“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 2021:

Standard	Description	Date of Adoption	Application	Effect on the Consolidated Financial Statements
Facilitation of the Effects of Reference Rate Reform on Financial Reporting	Provided optional guidance for a limited time to ease the potential accounting burden associated with the transition from London Interbank Offered Rate (“LIBOR”). The guidance contains optional expedients and exceptions for contract modifications, hedging relationships, and other transactions that reference LIBOR or other reference rates expected to be discontinued. The expedients elected must be applied for all eligible contracts or transactions, with the exception of hedging relationships, which can be applied on an individual basis.	March 12, 2020 through December 31, 2022	Prospective for contract modifications and hedging relationships; applied as of January 1, 2020.	The standard did not have a material impact on the Consolidated Financial Statements.
Simplifying the Accounting for Income Taxes	The guidance removes exceptions related to the incremental approach for intraperiod tax allocation, the requirement to recognize a deferred tax liability for changes in ownership of a foreign subsidiary or equity method investment, and the general methodology for calculating income taxes in an interim period when the year-to-date loss exceeds the anticipated loss. The guidance adds requirements to reflect changes to tax laws or rates in the annual effective tax rate computation in the interim period in which the changes were enacted, to recognize franchise or other similar taxes that are partially based on income as an income-based tax and any incremental amounts as non-income-based tax, and to evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction.	January 1, 2021	Modified retrospective for amendments related to changes in ownership of a foreign subsidiary or equity method investment; Modified retrospective or retrospective for amendments related to taxes partially based on income; Prospective for all other amendments.	The standard did not have a material impact on the Consolidated Financial Statements.

Presented in the table below are recently issued accounting standards that have not yet been adopted by the Company as of June 30, 2021:

Standard	Description	Date of Adoption	Application	Estimated Effect on the Consolidated Financial Statements
Accounting for Convertible Instruments and Contracts in an Entity's Own Equity	Simplification of financial reporting associated with accounting for convertible instruments and contracts in an entity's own equity. The standard reduced the number of accounting models for convertible debt instruments and convertible preferred stock. This will result in fewer embedded conversion features being separately recognized from the host contract. Earnings per share ("EPS") calculations have been simplified for certain instruments.	January 1, 2022; early adoption is not permitted before fiscal years beginning after December 15, 2020	Either modified retrospective or fully retrospective	The Company is evaluating any impact on its Consolidated Financial Statements, as well as the timing of adoption.

Cash, Cash Equivalents and Restricted Funds

Presented in the table below is a reconciliation of the cash and cash equivalents and restricted funds amounts as presented on the Consolidated Balance Sheets to the sum of such amounts presented on the Consolidated Statements of Cash Flows for the periods ended June 30:

	2021	2020
Cash and cash equivalents (a)	\$ 70	\$ 569
Restricted funds	34	36
Cash, cash equivalents and restricted funds as presented on the Consolidated Statements of Cash Flows	<u>\$ 104</u>	<u>\$ 605</u>

- (a) The majority of the change in the cash and cash equivalents balance is due to the repayment, at maturity, of the \$500 million in outstanding principal under the Term Loan Facility (as defined below). See Note 9—Short-Term Debt for additional information.

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. An increase in the allowance for uncollectible accounts for the period ending June 30, 2021 reflects the impacts from the COVID-19 pandemic, including an increase in uncollectible accounts expense and a reduction in amounts written off due to shutoff moratoria in place across the Company's subsidiaries.

Presented in the table below are the changes in the allowance for uncollectible accounts for the six months ended June 30:

	2021	2020
Balance as of January 1	\$ (60)	\$ (41)
Amounts charged to expense	(18)	(14)
Amounts written off	4	10
Less: Allowance for uncollectible accounts included in assets held for sale (a)	4	2
Balance as of June 30	<u>\$ (70)</u>	<u>\$ (43)</u>

- (a) This portion of the allowance for uncollectible accounts is related to the pending transactions contemplated by the Stock Purchase Agreement among the Company, the Company's New York subsidiary and an affiliate of Liberty Utilities Co., and is included in assets held for sale on the Consolidated Balance Sheets. See Note 6—Acquisitions and Divestitures for additional information.

Reclassifications

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

Note 3: Impact of the COVID-19 Pandemic

American Water continues to monitor the COVID-19 pandemic and has experienced financial impacts since the start of the pandemic resulting from lower revenues from the suspension of late fees and foregone reconnect fees in certain states, certain incremental operation and maintenance (“O&M”) expenses, an increase in uncollectible accounts expense and additional debt costs. These impacts are collectively referred to as “financial impacts.”

As of August 2, 2021, American Water has commission orders authorizing deferred accounting or cost recovery for COVID-19 financial impacts in 11 of 14 jurisdictions, with proceedings in New York and Tennessee pending. One jurisdiction, Kentucky, issued an order denying a request to defer to a regulatory asset the financial impacts related to the COVID-19 pandemic. Other regulatory actions to date are presented in the table below:

Commission Actions	Description	States
Orders issued with deferred accounting	Allows the Company to establish regulatory assets to record certain financial impacts related to the COVID-19 pandemic.	HI, IN, MD, NJ, PA, VA, WV
Orders issued with cost recovery	California’s Catastrophic Event Memorandum Account allows the Company’s California subsidiary to track certain financial impacts related to the COVID-19 pandemic for future recovery requests. Iowa issued a base rate case order on June 28, 2021, authorizing recovery in rates of the COVID-19 financial impacts deferred within its annual non-recurring expense rider. Illinois has authorized cost recovery of the COVID-19 financial impacts through a special purpose rider over a 24-month period, which was implemented effective October 1, 2020. Additionally, Illinois approved a bad debt rider tariff on December 16, 2020, allowing collection of actual bad debt expense over last authorized beginning April 2021 through February 2023. Illinois approved a stipulation in March 2021 to allow the rider to be extended through the end of 2023. Missouri issued a base rate case order on April 7, 2021, authorizing recovery in rates of the COVID-19 financial impacts deferred through March 31, 2021 over a three-year period.	CA, IA, IL, MO
Proceedings pending	Pending proceedings considering deferred accounting authorization for the future recovery of COVID-19 financial impacts.	NY, TN (a)

- (a) On July 28, 2021, the Company’s Tennessee subsidiary filed a stipulation and settlement agreement with the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General which reflects agreement on the deferral of foregone late fees and incremental operating expenses net of cost savings, all as of April 30, 2021. The deferral of these COVID-19 financial impacts will cease as of April 30, 2021. The stipulation and settlement agreement will be subject to Tennessee Public Utility Commission review and approval, with a hearing on the stipulation and settlement agreement scheduled on August 9, 2021.

The Pennsylvania Public Utility Commission (the “PaPUC”) has granted deferral authority on certain incremental expenses above those embedded in rates resulting from the COVID-19 pandemic. The Company’s Pennsylvania subsidiary has filed for confirmation to defer as a regulatory asset all identified COVID-19 financial impacts, with the proceeding currently pending before the PaPUC. A recommended decision from the Administrative Law Judge (“ALJ”) was issued on June 30, 2021, recommending the PaPUC deny the inclusion of waived late fees, waived reconnect fees, and additional interest costs. The ALJ decision recommended deferral of additional uncollectible costs not embedded in rates and COVID-19 related incremental direct costs and savings. The Company filed exceptions to this recommended decision on July 20, 2021 and reply exceptions on July 30, 2021, with a final order from the PaPUC expected later in the third quarter of 2021.

Consistent with these regulatory orders, the Company has recorded \$44 million in regulatory assets and \$5 million of regulatory liabilities for the financial impacts related to the COVID-19 pandemic on the Consolidated Balance Sheets as of June 30, 2021.

As of August 2, 2021, four states continue moratoria on the suspension of service disconnections due to non-payment. The moratoria on disconnects have expired in ten states.

Note 4: Regulatory Matters

General Rate Cases and Infrastructure Surcharges

Presented in the table below are annualized incremental revenues, excluding reductions for the amortization of excess accumulated deferred income tax (“EADIT”) that are generally offset in income tax expense, assuming a constant water sales volume, resulting from general rate case authorizations and infrastructure surcharge authorizations that became effective in the current period:

(In millions)	During the Three Months Ended June 30,		During the Six Months Ended June 30,	
	2021	2020	2021	2020
General rate cases by state:				
Missouri (effective May 28, 2021)	\$ 22	\$ —	\$ 22	\$ —
New York (a)	7	—	7	—
Pennsylvania (effective January 28, 2021)	—	—	70	—
Indiana (b)	—	13	—	13
California (c)	—	—	—	5
Total general rate cases	<u>\$ 29</u>	<u>\$ 13</u>	<u>\$ 99</u>	<u>\$ 18</u>
Infrastructure surcharges by state:				
New Jersey (effective June 28, 2021, June 29, 2020 and January 1, 2020)	\$ 14	\$ 10	\$ 14	\$ 20
Indiana (effective March 17, 2021)	—	—	8	—
Pennsylvania (effective January 1, 2021, April 1, 2020 and January 1, 2020)	—	5	8	15
Illinois (effective January 1, 2021 and January 1, 2020)	—	—	7	7
West Virginia (effective January 1, 2021 and January 1, 2020)	—	—	5	3
Tennessee (d)	—	2	3	2
Missouri (effective June 27, 2020)	—	10	—	10
Total infrastructure surcharges	<u>\$ 14</u>	<u>\$ 27</u>	<u>\$ 45</u>	<u>\$ 57</u>

- (a) The Company’s New York subsidiary implemented additional annualized revenues of \$7 million on May 1, 2021. The increase was deferred with interest from April 1, 2020.
- (b) The Company’s Indiana subsidiary filed for and, on May 4, 2020, received approval to implement a \$13 million increase for the second rate year, effective May 1, 2020.
- (c) The Company’s California subsidiary received approval for the third year (2020) step increase associated with its most recent general rate case authorization, effective January 1, 2020.
- (d) The Company’s Tennessee subsidiary received approval for infrastructure surcharges for annualized incremental revenues of \$3 million, effective January 1, 2021, and received approval on May 11, 2020 for infrastructure surcharges for annualized incremental revenues of \$2 million, effective January 1, 2020.

On August 28, 2020, the Company’s Iowa subsidiary filed a general rate case requesting \$3 million in annualized incremental revenues. An order was issued on June 28, 2021 authorizing an increase of \$1 million. On July 9, 2021, the Company’s Iowa subsidiary filed a Motion for Clarification with respect to the required accelerated flow back of unprotected EADIT over a three-year period to recognize the increase to rate base and incremental revenues as the unprotected EADIT it amortized. The Company’s Iowa subsidiary filed tariffs consistent with the Motion for Clarification on July 16, 2021, and is awaiting a decision from the Iowa Utilities Board on the Motion for Clarification before new rates are implemented.

Effective July 1, 2021, the Company’s Kentucky subsidiary implemented infrastructure surcharges for annualized incremental revenues of \$1 million.

On April 7, 2021, the Company's Missouri subsidiary was authorized additional annualized revenues of \$22 million, effective May 28, 2021, excluding agreed to reductions for EADIT as a result of the Tax Cuts and Jobs Act of 2017 (the "TCJA"). The EADIT reduction in revenues is \$25 million and is offset by a like reduction in income tax expense. The protected EADIT balance of \$72 million is being returned to customers using the average rate assumption method ("ARAM"), and the unprotected EADIT balance of \$74 million is being returned to customers over 10 years. The \$25 million EADIT reduction includes both the protected and unprotected catch-up period EADIT of \$13 million. The catch-up period of January 1, 2018 through May 31, 2021 covers the period from when the lower federal corporate income tax rate went into effect until new base rates went into effect and will be amortized over 2.5 years.

On March 2, 2021, an administrative law judge ("ALJ") in the Office of Administrative Law of New Jersey filed an Initial Decision ("ID") with the New Jersey Board of Public Utilities (the "NJBP") that recommended denial of a petition filed by the Company's New Jersey subsidiary, which sought approval of acquisition adjustments in rates 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 NJBP issued an order adopting the ALJ's ID without modification. The Company's New Jersey subsidiary is continuing to evaluate next steps, including grounds to move for reconsideration within the time permitted by law. There is no financial impact to the Company as a result of the NJBP's order, since the acquisition adjustments are currently recorded as goodwill on the Consolidated Balance Sheets.

On February 25, 2021, the Company's Pennsylvania subsidiary was authorized additional annualized revenues of \$90 million, effective January 28, 2021, excluding agreed to reductions for EADIT as a result of the TCJA, over two steps. The EADIT reduction in revenues is \$19 million. The overall increase, net of TCJA reductions, is \$71 million in revenues combined over two steps. The first step was effective January 28, 2021 in the amount of \$70 million (\$51 million including TCJA reductions) and the second step will be effective January 1, 2022 in the amount of \$20 million. The protected EADIT balance of \$200 million is being returned to customers using the ARAM, and the unprotected EADIT balance of \$116 million is being returned to customers over 20 years. The \$19 million annually includes both the protected and unprotected EADIT amortizations and a portion of catch-up period EADIT. A bill credit of \$11 million annually for two years returns to customers the remainder of the EADIT catch-up period amortization. The catch-up period of January 1, 2018 through December 31, 2020 covers the period from when the lower federal corporate income tax rate went into effect until new base rates went into effect and will be amortized over two years.

Pending General Rate Case Filings

On April 30, 2021, the Company's West Virginia subsidiary filed a general rate case requesting \$32 million in annualized incremental revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges. The proposed EADIT reduction in revenues is \$1 million and the exclusion for infrastructure surcharges is \$10 million.

On July 1, 2019, the Company's California subsidiary filed a general rate case requesting \$29 million in annualized incremental revenues for 2021, and increases of \$10 million and \$11 million in the escalation year of 2022 and the attrition year of 2023, respectively. On October 11, 2019, the Company filed its 100-day update for the same proceeding and updated the request to \$27 million in annualized incremental revenues for 2021, and increases of \$10 million in both the escalation year of 2022 and the attrition year of 2023, respectively. On September 10, 2020, the California Public Utilities Commission (the "CPUC") approved the Company's California subsidiary's motion for interim rates, establishing a memorandum account to track the difference between interim and final rates adopted by the CPUC in this proceeding, which were effective on January 1, 2021. Following settlement discussions among all parties to the proceeding, on January 22, 2021 and January 25, 2021, the Company's California subsidiary filed with the CPUC a comprehensive settlement entered into among the Company's California subsidiary, the Public Advocates Office, and other intervenors. These settlement agreements resolved all matters in dispute among the parties to the settlements. These settlements, as well as resolution of issues raised by non-settling parties, are now before the CPUC for approval.

On January 22, 2020, the Company's California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2021. On March 12, 2020, the CPUC granted the request for a one year extension of the cost of capital filing to May 1, 2021, to set its authorized cost of capital beginning January 1, 2022. On January 5, 2021, the Company's California subsidiary submitted a request to further delay by one year its cost of capital filing and maintain the authorized cost of capital through 2022. On February 22, 2021, the CPUC denied the request to further delay the cost of capital filing. The Company's California subsidiary submitted its cost of capital application on May 3, 2021. Once approved by the CPUC, the new authorized cost of capital will be effective January 1, 2022.

Pending Infrastructure Surcharge Filings

On June 30, 2021, the Company's West Virginia subsidiary filed for an infrastructure surcharge requesting \$3 million in additional annualized revenues.

On June 28, 2021, the Company's Missouri subsidiary filed for an infrastructure surcharge requesting \$7 million in additional annualized revenues.

Note 5: 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 market-based businesses that provide water, wastewater and other services to residential and smaller commercial customers, the U.S. government on military installations, as well as municipalities and utility customers, collectively presented as the "Market-Based Businesses."

Presented in the table below are operating revenues disaggregated for the three months ended June 30, 2021:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	\$ 491	\$ —	\$ 491
Commercial	170	—	170
Fire service	37	—	37
Industrial	34	—	34
Public and other	56	—	56
Total water services	788	—	788
Wastewater services:			
Residential	38	—	38
Commercial	9	—	9
Industrial	1	—	1
Public and other	4	—	4
Total wastewater services	52	—	52
Miscellaneous utility charges	8	—	8
Alternative revenue programs	—	7	7
Lease contract revenue	—	2	2
Total Regulated Businesses	848	9	857
Market-Based Businesses	146	—	146
Other	(4)	—	(4)
Total operating revenues	\$ 990	\$ 9	\$ 999

(a) Includes revenues associated with provisional rates, 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 six months ended June 30, 2021:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	\$ 921	\$ —	\$ 921
Commercial	314	—	314
Fire service	74	—	74
Industrial	66	—	66
Public and other	100	—	100
Total water services	1,475	—	1,475
Wastewater services:			
Residential	74	—	74
Commercial	18	—	18
Industrial	2	—	2
Public and other	8	—	8
Total wastewater services	102	—	102
Miscellaneous utility charges	16	—	16
Alternative revenue programs	—	16	16
Lease contract revenue	—	3	3
Total Regulated Businesses	1,593	19	1,612
Market-Based Businesses	283	—	283
Other	(8)	—	(8)
Total operating revenues	\$ 1,868	\$ 19	\$ 1,887

(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 Market-Based Businesses, 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 home warranty protection program contracts, and are recognized as revenue when the associated performance obligations are satisfied.

Contract assets of \$58 million and \$39 million are included in unbilled revenues on the Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020, respectively. Contract assets of \$26 million and \$13 million are included in unbilled revenues on the Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019, respectively. There were \$38 million of contract assets added during the six months ended June 30, 2021, and \$19 million of contract assets were transferred to accounts receivable during the same period. There were \$29 million of contract assets added during the six months ended June 30, 2020, and \$16 million of contract assets were transferred to accounts receivable during the same period.

Contract liabilities of \$44 million and \$35 million are included in other current liabilities on the Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020, respectively. Contract liabilities of \$37 million and \$27 million are included in other current liabilities on the Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019, respectively. There were \$90 million of contract liabilities added during the six months ended June 30, 2021, and \$81 million of contract liabilities were recognized as revenue during the same period. There were \$66 million of contract liabilities added during the six months ended June 30, 2020, and \$56 million of contract liabilities were recognized as revenue during the same period.

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 June 30, 2021, the Company’s O&M and capital improvement contracts in the Market-Based Businesses have RPOs. Contracts with the U.S. government for work on various military installations expire between 2051 and 2071 and have RPOs of \$6.3 billion as of June 30, 2021, 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 2022 and 2038 and have RPOs of \$624 million as of June 30, 2021, 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 6: Acquisitions and Divestitures

During the six months ended June 30, 2021, the Company closed on the acquisition of seven regulated water and wastewater systems for a total aggregate purchase price of \$17 million. Assets acquired from these acquisitions, principally utility plant, totaled \$17 million. One of these acquisitions was accounted for as a business combination. The preliminary purchase price allocations related to an acquisition accounted for as a business combination will be finalized once the valuation of assets acquired has been completed, no later than one year after its acquisition date.

Subsequent to June 30, 2021, the Company closed on one regulated wastewater system for a total aggregate purchase price of \$4 million.

On April 6, 2021, the Company’s Pennsylvania subsidiary entered into an agreement to acquire the wastewater assets of the York City Sewer Authority for \$235 million, plus an amount of average daily revenue calculated for the period between the final meter reading and the date of closing. This system currently directly and indirectly through bulk contracts serves more than 45,000 customers. In connection with the execution of the acquisition agreement, the Company’s Pennsylvania subsidiary paid a \$20 million deposit to the seller on April 30, 2021, which is refundable in the event the agreement is terminated prior to closing of the acquisition. The Company expects to close this acquisition in the first half of 2022, pending regulatory approval.

On March 29, 2021, the Company’s New Jersey subsidiary entered into an agreement to acquire the water and wastewater assets of Egg Harbor City for \$22 million. The water and wastewater systems currently serve approximately 1,500 customers each, or 3,000 combined, and are being sold through the New Jersey Water Infrastructure Protection Act process. The Company expects to close this acquisition by the end of 2021, pending regulatory approval.

Assets Held for Sale

On November 20, 2019, the Company and the Company’s New York subsidiary, entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) with Liberty Utilities Co., which it subsequently assigned to its indirect, wholly owned subsidiary Liberty Utilities (Eastern Water Holdings) Corp. (“Liberty”), pursuant to which Liberty will purchase all of the capital stock of the New York subsidiary (the “Stock Purchase”) for an aggregate purchase price of approximately \$608 million in cash, subject to adjustment as provided in the Stock Purchase Agreement. The Company’s regulated New York operations have approximately 125,000 customers in the State of New York. Algonquin Power & Utilities Corp., Liberty’s ultimate parent company, executed and delivered an absolute and unconditional guaranty of the performance of all of the obligations of Liberty under the Stock Purchase Agreement. The Stock Purchase is subject to various conditions, including obtaining approvals and satisfying or waiving other closing conditions. The Stock Purchase Agreement as originally executed provided for an initial termination date of June 30, 2021 (the “Closing End Date”). On June 29, 2021, the parties mutually agreed to extend the Closing End Date to December 31, 2021 in accordance with the terms of the Stock Purchase Agreement, and agreed to extend further the Closing End Date to January 3, 2022 as December 31, 2021 is a federal holiday. No other provision of the Stock Purchase Agreement was modified by this mutual agreement. Liberty may also terminate the Stock Purchase Agreement if any governmental authority initiates a condemnation or eminent domain proceeding against a majority of the consolidated properties of the Company’s New York subsidiary, taken as a whole. The assets and related liabilities of the Company’s New York subsidiary were classified as held for sale on the Consolidated Balance Sheets as of June 30, 2021.

Presented in the table below are the components of assets held for sale and liabilities related to assets held for sale of the New York subsidiary as of June 30, 2021:

	June 30, 2021
Property, plant and equipment	\$ 535
Current assets	17
Regulatory assets	77
Goodwill	27
Other assets	10
Assets held for sale	<u>\$ 666</u>
Current liabilities	15
Regulatory liabilities	48
Other liabilities	16
Liabilities related to assets held for sale	<u>\$ 79</u>

Note 7: Shareholders' Equity

Accumulated Other Comprehensive Loss

Presented in the table below are the changes in accumulated other comprehensive loss by component, net of tax, for the six months ended June 30, 2021 and 2020, respectively:

	Defined Benefit Pension Plans			Gain (Loss) on	Accumulated Other
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss	Cash Flow Hedges	Comprehensive Loss
Balance as of December 31, 2020	\$ (106)	\$ 1	\$ 63	\$ (7)	\$ (49)
Other comprehensive income before reclassifications	—	—	—	1	1
Amounts reclassified from accumulated other comprehensive loss	—	—	2	—	2
Net other comprehensive income (loss)	—	—	2	1	3
Balance as of June 30, 2021	<u>\$ (106)</u>	<u>\$ 1</u>	<u>\$ 65</u>	<u>\$ (6)</u>	<u>\$ (46)</u>
Balance as of December 31, 2019	\$ (94)	\$ 1	\$ 60	\$ (3)	\$ (36)
Other comprehensive loss before reclassifications	—	—	—	(4)	(4)
Amounts reclassified from accumulated other comprehensive loss	—	—	1	—	1
Net other comprehensive income (loss)	—	—	1	(4)	(3)
Balance as of June 30, 2020	<u>\$ (94)</u>	<u>\$ 1</u>	<u>\$ 61</u>	<u>\$ (7)</u>	<u>\$ (39)</u>

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.

Dividends

On June 1, 2021, the Company paid a quarterly cash dividend of \$0.6025 per share to shareholders of record as of May 11, 2021.

On July 28, 2021, the Company's Board of Directors declared a quarterly cash dividend payment of \$0.6025 per share, payable on September 1, 2021 to shareholders of record as of August 10, 2021. 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 10—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 8: Long-Term Debt

On May 10, 2021, American Water Capital Corp. ("AWCC") completed a \$1.1 billion debt offering, which included the sale of \$550 million aggregate principal amount of its 2.30% senior notes due 2031 and \$550 million aggregate principal amount of its 3.25% senior notes due 2051. At the closing of the offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of \$1,086 million. AWCC used the net proceeds of this offering: (i) to lend funds to parent company and its regulated subsidiaries; (ii) to prepay \$251 million aggregate principal amount of AWCC's outstanding 5.77% Series D Senior Notes due December 21, 2021 (the "Series D Notes") and \$76 million aggregate principal amount of AWCC's outstanding 6.55% Series H Senior Notes due May 15, 2023 (the "Series H Notes," and together with the Series D Notes, the "Series Notes"); (iii) to repay AWCC's commercial paper obligations; and (iv) for general corporate purposes. After the prepayments described above, none of the Series D Notes, and approximately \$14 million aggregate principal amount of the Series H Notes, remain outstanding. As a result of AWCC's prepayment of the Series Notes, a make-whole premium of \$15 million was paid to the holders thereof on June 14, 2021. Substantially all of the early debt extinguishment costs were allocable to the Company's utility subsidiaries and recorded as regulatory assets, as the Company believes they are probable of recovery in future rates.

On May 6, 2021, the Company entered into two 10-year treasury lock agreements, with notional amounts of \$125 million and \$150 million, to reduce interest rate exposure on debt, which was subsequently issued on May 10, 2021. These treasury lock agreements had an average fixed rate of 1.58%. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. On May 10, 2021, the Company terminated these two treasury lock agreements with an aggregate notional amount of \$275 million, realizing a net gain of less than \$1 million, to be amortized through interest, net over a 10-year period, in accordance with the terms of the \$1.1 billion new debt issued on May 10, 2021. No ineffectiveness was recognized on hedging instruments for the three and six months ended June 30, 2021 and 2020.

In addition to the senior notes issued and retired by AWCC as described above, during the six months ended June 30, 2021, the Company's regulated subsidiaries issued in the aggregate \$2 million of private activity bonds and government funded debt in multiple transactions with annual interest rates ranging from 0.00% to 5.00%, with a weighted average interest rate of 0.27%, maturing in 2022 through 2047. During the six months ended June 30, 2021, AWCC and the Company's regulated subsidiaries retired or paid at maturity an aggregate of \$37 million of long-term debt issues with annual interest rates ranging from 0.00% to 12.25%, with a weighted average interest rate of 8.33%, maturing in 2021 through 2048.

Note 9: Short-Term Debt

Liquidity needs for capital investment, working capital and other financial commitments are 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. The revolving credit facility provides \$2.25 billion in aggregate total commitments from a diversified group of financial institutions. The termination date of the credit agreement with respect to AWCC's revolving credit facility is March 21, 2025. The 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.

On March 20, 2020, AWCC entered into a Term Loan Credit Agreement, by and among parent company, AWCC and the lenders party thereto (the "Term Loan Facility"). As of December 31, 2020, \$500 million of principal was outstanding under the Term Loan Facility. The Term Loan Facility commitments terminated at maturity on March 19, 2021 and the Term Loan Facility was repaid in full. Borrowings under the Term Loan Facility bore interest at a variable annual rate based on LIBOR, plus a margin of 0.80%.

Short-term debt consists of commercial paper and credit facility borrowings totaling \$606 million and \$786 million as of June 30, 2021 and December 31, 2020, respectively. The weighted-average interest rate on AWCC's outstanding short-term borrowings, including \$500 million of outstanding principal on the Term Loan Facility as of December 31, 2020, was approximately 0.13% and 0.53% at June 30, 2021 and December 31, 2020, respectively. As of June 30, 2021 and December 31, 2020, there were no commercial paper or credit facility 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:

(In millions)	As of June 30, 2021		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	\$ 2,100	\$ 150	\$ 2,250
Outstanding debt	(606)	(76)	(682)
Remaining availability as of June 30, 2021	<u>\$ 1,494</u>	<u>\$ 74</u>	<u>\$ 1,568</u>

(a) Total remaining availability of \$1.57 billion as of June 30, 2021 may be accessed through revolver draws.

(In millions)	As of December 31, 2020		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	\$ 2,100	\$ 150	\$ 2,250
Outstanding debt	(786)	(76)	(862)
Remaining availability as of December 31, 2020	<u>\$ 1,314</u>	<u>\$ 74</u>	<u>\$ 1,388</u>

(a) Total remaining availability of \$1.39 billion as of December 31, 2020 may be accessed through revolver draws.

Presented in the table below is the Company's total available liquidity as of June 30, 2021 and December 31, 2020, respectively:

(In millions)	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of June 30, 2021	\$ 70	1,568	\$ 1,638
Available liquidity as of December 31, 2020	\$ 547	1,388	\$ 1,935

Note 10: Income Taxes

The Company's effective income tax rate was 17.5% and 24.1% for the three months ended June 30, 2021 and 2020, respectively, and 16.3% and 23.3% for the six months ended June 30, 2021 and 2020, respectively. The decrease in the Company's effective income tax rate for the three and six months ended June 30, 2021 was primarily due to an increase in the amortization of EADIT resulting from the TCJA, pursuant to regulatory orders, and an increase in deductions for stock based compensation benefits.

Note 11: Pension and Other Postretirement Benefits

Presented in the table below are the components of net periodic benefit cost (credit):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Components of net periodic pension benefit cost:				
Service cost	\$ 9	\$ 8	\$ 18	\$ 16
Interest cost	16	18	33	37
Expected return on plan assets	(32)	(28)	(64)	(56)
Amortization of prior service credit	—	(1)	(1)	(2)
Amortization of actuarial loss	6	8	13	16
Net periodic pension benefit (credit) cost before settlements	(1)	5	(1)	11
Settlements (a)	—	1	—	1
Net periodic pension benefit (credit) cost	<u>\$ (1)</u>	<u>\$ 6</u>	<u>\$ (1)</u>	<u>\$ 12</u>
Components of net periodic other postretirement benefit credit:				
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	2	3	4	6
Expected return on plan assets	(5)	(5)	(10)	(9)
Amortization of prior service credit	(8)	(8)	(16)	(16)
Amortization of actuarial loss	—	—	—	1
Net periodic other postretirement benefit credit	<u>\$ (10)</u>	<u>\$ (9)</u>	<u>\$ (20)</u>	<u>\$ (16)</u>

(a) Due to the amount of lump sum payment distributions from the Company's New York Water Service Corporation Pension Plan, a settlement charge of less than \$1 million was recorded during the three and six months ended June 30, 2021, and a settlement charge of \$1 million was recorded during the three and six months ended June 30, 2020. In accordance with existing regulatory accounting treatment, the Company has maintained the settlement charge in regulatory assets. The amount is being amortized in accordance with existing regulatory practice.

The Company contributed \$9 million and \$18 million for the funding of its defined benefit pension plans for the three and six months ended June 30, 2021, respectively, and contributed \$12 million and \$22 million for the funding of its defined benefit pension plans for the three and six months ended June 30, 2020, respectively. The Company made no contributions for the funding of its other postretirement benefit plans for each of the three and six months ended June 30, 2021 and 2020. The Company expects to make pension and postretirement contributions to the plan trusts of \$22 million during the remainder of 2021.

Note 12: Commitments and Contingencies
Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. As of June 30, 2021, the Company has accrued approximately \$5 million of probable loss contingencies and has estimated that the maximum amount of losses associated with reasonably possible loss contingencies that can be reasonably estimated is \$2 million. For certain matters, claims and actions, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such matters, claims or actions, other than as described in this Note 12—Commitments and Contingencies, will not have a material adverse effect on the Company.

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, the Company's West Virginia subsidiary ("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.

The aggregate pre-tax amount contributed by WVAWC of the \$126 million portion of the Settlement with respect to the Company, net of insurance recoveries, is \$19 million. As of June 30, 2021, \$0.5 million of the aggregate Settlement amount of \$126 million has been reflected in accrued liabilities, and \$0.5 million in offsetting insurance receivables have been reflected in other current assets on the Consolidated Balance Sheets. The amount reflected in accrued liabilities as of June 30, 2021 reflects reductions in the liability and appropriate reductions to the offsetting insurance receivable reflected in other current assets, associated with payments made to the Settlement fund, the receipt of a determination by the Settlement fund's appeal adjudicator on all remaining medical claims and the calculation of remaining attorneys' fees and claims administration costs. The Company funded WVAWC's contributions to the Settlement through existing sources of liquidity.

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 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.

On February 4, 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. On July 14, 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. On August 31, 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 order certifying the issues class. At the request of the parties, on September 10, 2020, the Circuit Court ordered the stay of all matters in the class proceeding pending consideration of this petition. On December 3, 2020, the Supreme Court of Appeals issued an order to show cause stating that there are sufficient grounds for oral argument to consider prohibiting the class certification order. On January 28, 2021, the Supreme Court of Appeals granted a motion by the *Jeffries* plaintiffs to remand the case back to the Circuit Court for further consideration in light of a recent Supreme Court of Appeals decision issued in another case relating to the class certification issues raised. A briefing schedule has been set and, following briefing by all parties, oral argument on the issue of class certification was heard on July 16, 2021. This matter remains pending.

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. 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.

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.

On November 22, 2019, the Tennessee-American Water Defendants filed a motion to dismiss the complaint for failure to state a claim upon which relief may be granted, and, with respect to the Company, for lack of personal jurisdiction. Oral argument on the motion to dismiss took place on September 9, 2020. On September 18, 2020, the court (i) granted the motion to dismiss the Tennessee Plaintiffs’ negligence claim against all Tennessee-American Water Defendants, (ii) denied the motion to dismiss the breach of contract claim against TAWC, (iii) held in abeyance the motion to dismiss the breach of contract claims against the Company and Service Company pending a further hearing and (iv) held in abeyance the Company’s motion to dismiss the complaint for lack of personal jurisdiction. On September 24, 2020, at the request of the Tennessee Plaintiffs, the court dismissed without prejudice all claims in the *Bruce* complaint against the Company and Service Company. The impact of the September 2020 court orders was that all of the Tennessee Plaintiffs’ claims in this complaint were dismissed, other than the breach of contract claims against TAWC. On October 16, 2020, TAWC answered the complaint, and the parties are conducting discovery.

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”) approving a deadline of December 31, 2021 for Cal Am’s compliance with these prior orders (the “2021 Deadline”).

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 2009 Order and the 2016 Order.

Cal Am’s ability to move forward on the Water Supply Project is subject to administrative review by the California Public Utilities Commission (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 the incurred \$50 million in associated 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 (i) the Water Supply Project meets the CPUC’s requirements for a certificate of public convenience and necessity, (ii) the issuance of the final decision should not be delayed, and (iii) 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 has incurred \$166 million in aggregate costs as of June 30, 2021 related to the Water Supply Project, which includes \$41 million in AFUDC. While Cal Am believes that its expenditures to date have been prudent and necessary to comply with the 2009 Order and the 2016 Order, as well as the CPUC’s 2016 and 2018 final decisions, 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 \$50 million in construction costs previously approved by the CPUC in its 2016 final decision.

Coastal Development Permit Application

In June 2018, Cal Am submitted a coastal development permit 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 Cal Am’s coastal development permit application. Thereafter, Cal Am appealed this decision to the California Coastal Commission (the “Coastal Commission”), as permitted under the City’s code and the California Coastal Act. At the same time, Cal Am submitted an application to the Coastal Commission for a coastal development permit for those project components located within the Coastal Commission’s original jurisdiction. In October 2019, staff of the Coastal Commission issued a report recommending a denial of Cal Am’s application for a coastal development permit with respect to the Water Supply Project, largely based on a memorandum prepared by the general manager of the MPWMD that contradicted findings made by the CPUC in its final decision approving the Water Supply Project. In November 2019, discussions between staffs of the Coastal Commission and the CPUC took place regarding the Coastal Commission staff recommendation, at which time the CPUC raised questions about the Coastal Commission staff’s findings on water supply and demand, groundwater impacts and the viability of a project that the Coastal Commission staff believes may be a possible alternative to the Water Supply Project.

In August 2020, the staff of the Coastal Commission released a report again recommending denial of Cal Am’s application for a coastal development permit. Although the report concluded that the Water Supply Project would have a negligible impact on groundwater resources, the report also concluded it would impact other coastal resources, such as environmentally sensitive habitat areas and wetlands, and that the Coastal Commission staff believes that a feasible alternative project exists that would avoid those impacts. The staff’s report also noted disproportionate impacts to communities of concern. In September 2020, Cal Am withdrew its original jurisdiction application to allow additional time to address the Coastal Commission staff’s environmental justice concerns. The withdrawal of the original jurisdiction application did not impact Cal Am’s appeal of the City’s denial, which remains pending before the Coastal Commission. Cal Am refiled the original jurisdiction application in November 2020. In December 2020, the Coastal Commission sent to Cal Am a notice of incomplete application, identifying certain additional information needed to consider the application complete. In March 2021, Cal Am provided responses to the Coastal Commission’s notice of incomplete application. On June 18, 2021, the Coastal Commission responded, acknowledging the responses and requesting certain additional information before the application could be considered complete. The original jurisdiction application remains pending.

Cal Am continues to work constructively with all appropriate agencies to provide necessary information in connection with obtaining required approvals for the Water Supply Project. However, based on the foregoing, there can be no assurance that the Water Supply Project in its current configuration will be completed on a timely basis, if ever. Due to the delay in the approval schedule for the Water Supply Project, Cal Am currently does not expect that it will be able to comply with the diversion reduction requirement schedule contained in the 2016 Order until January 2022. The 2009 Order and the 2016 Order 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 2009 Order and the 2016 Order, or the 2021 Deadline, 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 2009 Order and the 2016 Order.

Note 13: Earnings per Common Share

Presented in the table below is a reconciliation of the numerator and denominator for the basic and diluted EPS calculations:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Numerator:				
Net income attributable to common shareholders	\$ 207	\$ 176	\$ 340	\$ 300
Denominator:				
Weighted-average common shares outstanding—Basic	182	181	181	181
Effect of dilutive common stock equivalents	—	—	1	—
Weighted-average common shares outstanding—Diluted	182	181	182	181

The effect of dilutive common stock equivalents is related to outstanding stock options, 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 six months ended June 30, 2021 and 2020, because their effect would have been anti-dilutive under the treasury stock method.

Note 14: 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.

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 June 30, 2021					
Carrying Amount	At Fair Value				Total
	Level 1	Level 2	Level 3		
Preferred stock with mandatory redemption requirements	\$ 4	\$ —	\$ —	\$ 6	\$ 6
Long-term debt (excluding finance lease obligations)	10,390	10,288	62	1,660	12,010
As of December 31, 2020					
Carrying Amount	At Fair Value				Total
	Level 1	Level 2	Level 3		
Preferred stock with mandatory redemption requirements	\$ 5	\$ —	\$ —	\$ 7	\$ 7
Long-term debt (excluding finance lease obligations)	9,656	9,639	415	1,753	11,807

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 June 30, 2021					
	Level 1	Level 2	Level 3		Total
Assets:					
Restricted funds	\$ 34	\$ —	\$ —	\$	34
Rabbi trust investments	22	—	—		22
Deposits	26	—	—		26
Other investments	17	—	—		17
Total assets	99	—	—		99
Liabilities:					
Deferred compensation obligations	26	—	—		26
Total liabilities	26	—	—		26
Total assets	\$ 73	\$ —	\$ —	\$	73

	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	\$ 29	\$ —	\$ —	\$ 29
Rabbi trust investments	19	—	—	19
Deposits	4	—	—	4
Other investments	11	—	—	11
Total assets	63	—	—	63
Liabilities:				
Deferred compensation obligations	24	—	—	24
Total liabilities	24	—	—	24
Total assets	\$ 39	\$ —	\$ —	\$ 39

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 variable-to-fixed interest rate swaps and treasury lock agreements, classified as economic hedges and cash flow hedges, respectively, in order to fix the interest cost on existing or forecasted debt. The Company may use fixed-to-floating interest rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total 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. The Company had no significant mark-to-market derivatives outstanding as of June 30, 2021.

Other investments—Other investments primarily represent money market funds used for active employee benefits. The Company includes other investments in other current assets on the Consolidated Balance Sheets.

Note 15: 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 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 39 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 \$146 million and \$147 million as of June 30, 2021 and December 31, 2020, 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 excluded from the finance 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 \$2 million in 2021 and \$4 million in 2022 through 2025, and \$52 million thereafter, are included in operating lease ROU assets and operating lease liabilities on the Consolidated Balance Sheets.

Rental expenses under operating and finance leases were \$4 million and \$3 million for the three months ended June 30, 2021 and June 30, 2020, respectively, and \$7 million and \$7 million for the six months ended June 30, 2021 and June 30, 2020, respectively.

For the three and six months ended June 30, 2021, cash paid for amounts in lease liabilities, which includes operating and financing cash flows from operating and finance leases, were \$4 million and \$7 million, respectively. For the three months ended June 30, 2021, there were no ROU assets obtained in exchange for new operating lease liabilities. For the six months ended June 30, 2021, there were ROU assets obtained in exchange for new operating lease liabilities of \$6 million.

As of June 30, 2021, the weighted-average remaining lease term of the finance lease and operating leases were five years and 19 years, respectively, and the weighted-average discount rate of the finance lease and operating leases were 12% and 4%, respectively.

The future maturities of lease liabilities at June 30, 2021 are \$6 million in 2021, \$12 million in 2022, \$8 million in 2023, \$7 million in 2024, \$7 million in 2025 and \$96 million thereafter. At June 30, 2021 imputed interest was \$46 million.

Note 16: Segment Information

The Company’s operating segments are comprised of the revenue-generating components of its businesses for which separate financial information is internally produced and 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 market-based businesses that, individually, do not meet the criteria of a reportable segment in accordance with GAAP, and are collectively presented as the Market-Based Businesses. “Other” includes corporate costs that are not allocated to the Company’s operating segments, eliminations of inter-segment transactions, fair value adjustments and associated income and deductions related to the acquisitions that have not been allocated to the operating segments for evaluation of performance and allocation of resource purposes. The adjustments related to the acquisitions are reported in Other as they are excluded from segment performance measures evaluated by management.

Presented in the tables below is summarized segment information:

	As of or for the Three Months Ended June 30, 2021			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Operating revenues	\$ 857	\$ 146	\$ (4)	\$ 999
Depreciation and amortization	151	6	1	158
Total operating expenses, net	552	119	(2)	669
Interest, net	(72)	(1)	(28)	(101)
Income before income taxes	257	26	(32)	251
Provision for income taxes	42	6	(4)	44
Net income attributable to common shareholders	215	19	(27)	207
Total assets	22,445	899	1,608	24,952
Cash paid for capital expenditures	406	2	2	410

	As of or for the Three Months Ended June 30, 2020			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Operating revenues	\$ 803	\$ 132	\$ (4)	\$ 931
Depreciation and amortization	144	7	1	152
Total operating expenses, net	512	102	4	618
Interest, net	(74)	—	(27)	(101)
Income before income taxes	236	30	(34)	232
Provision for income taxes	58	8	(10)	56
Net income attributable to common shareholders	177	23	(24)	176
Total assets	21,536	1,075	1,398	24,009
Cash paid for capital expenditures	457	3	2	462

	As of or for the Six Months Ended June 30, 2021			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Operating revenues	\$ 1,612	\$ 283	\$ (8)	\$ 1,887
Depreciation and amortization	298	11	6	315
Total operating expenses, net	1,095	233	—	1,328
Interest, net	(143)	(2)	(54)	(199)
Income before income taxes	420	48	(62)	406
Provision for income taxes	70	12	(16)	66
Net income attributable to common shareholders	350	36	(46)	340
Total assets	22,445	899	1,608	24,952
Cash paid for capital expenditures	744	4	4	752

	As of or for the Six Months Ended June 30, 2020			
	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Operating revenues	\$ 1,523	\$ 260	\$ (8)	\$ 1,775
Depreciation and amortization	279	13	5	297
Total operating expenses, net	1,015	201	7	1,223
Interest, net	(146)	1	(52)	(197)
Income before income taxes	398	60	(67)	391
Provision for income taxes	98	16	(23)	91
Net income attributable to common shareholders	300	45	(45)	300
Total assets	21,536	1,075	1,398	24,009
Cash paid for capital expenditures	861	6	3	870

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, 2020. 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 market-based businesses that provide water, wastewater and other services to residential and smaller commercial customers, the U.S. government on military installations, as well as municipalities and utility customers, collectively presented as the "Market-Based Businesses." These Market-Based Businesses are not subject to economic regulation by state PUCs. See Part I, Item 1—Business in the Company's Form 10-K for additional information.

COVID-19 Pandemic Update

American Water continues to monitor the COVID-19 pandemic and has taken steps since the beginning of the pandemic to mitigate adverse impacts to the Company. The Company has three main areas of focus as part of its response to COVID-19: the care and safety of its employees; the safety of its customers and the communities it serves; and the execution of its business continuity plan. American Water continues to work with its vendors to prevent disruptions in its supply chain, and, at this time, has not experienced, and does not anticipate, any material negative impacts. The Company also continues to monitor the impacts of the COVID-19 pandemic on the capital markets, including impacts that could increase its cost of capital.

The Company has experienced financial impacts since the beginning of the pandemic resulting from lower revenues from the suspension of late fees and foregone reconnect fees in certain states, certain incremental operation and maintenance ("O&M") expenses, an increase in uncollectible accounts expense and additional debt costs. These impacts are collectively referred to as "financial impacts." See Note 3—Impact of the COVID-19 Pandemic in the Notes to Consolidated Financial Statements for additional information. The extent to which the COVID-19 pandemic may further impact American Water, including without limitation, its liquidity, financial condition, and results of operations, will depend on future developments, which presently cannot be predicted.

As of August 2, 2021, American Water has commission orders authorizing deferred accounting or cost recovery for COVID-19 financial impacts in 11 of 14 jurisdictions, with proceedings in New York and Tennessee pending. One jurisdiction, Kentucky, issued an order denying a request to defer to a regulatory asset the financial impacts related to the COVID-19 pandemic. Other regulatory actions to date are presented in the table below:

Commission Actions	Description	States
Orders issued with deferred accounting	Allows the Company to establish regulatory assets to record certain financial impacts related to the COVID-19 pandemic.	HI, IN, MD, NJ, PA, VA, WV
Orders issued with cost recovery	California's Catastrophic Event Memorandum Account allows the Company's California subsidiary to track certain financial impacts related to the COVID-19 pandemic for future recovery requests. Iowa issued a base rate case order on June 28, 2021, authorizing recovery in rates of the COVID-19 financial impacts deferred within its annual non-recurring expense rider. Illinois has authorized cost recovery of the COVID-19 financial impacts through a special purpose rider over a 24-month period, which was implemented effective October 1, 2020. Additionally, Illinois approved a bad debt rider tariff on December 16, 2020, allowing collection of actual bad debt expense over last authorized beginning April 2021 through February 2023. Illinois approved a stipulation in March 2021 to allow the rider to be extended through the end of 2023. Missouri issued a base rate case order on April 7, 2021, authorizing recovery in rates of the COVID-19 financial impacts deferred through March 31, 2021 over a three-year period.	CA, IA, IL, MO
Proceedings pending	Pending proceedings considering deferred accounting authorization for the future recovery of COVID-19 financial impacts.	NY, TN (a)

(a) On July 28, 2021, the Company's Tennessee subsidiary filed a stipulation and settlement agreement with the Consumer Advocate Unit in the Financial Division of the Office of the Tennessee Attorney General which reflects agreement on the deferral of foregone late fees and incremental operating expenses net of cost savings, all as of April 30, 2021. The deferral of these COVID-19 financial impacts will cease as of April 30, 2021. The stipulation and settlement agreement will be subject to Tennessee Public Utility Commission review and approval, with a hearing on the stipulation and settlement agreement scheduled on August 9, 2021.

The Pennsylvania Public Utility Commission (the "PaPUC") has granted deferral authority on certain incremental expenses above those embedded in rates resulting from the COVID-19 pandemic. The Company's Pennsylvania subsidiary has filed for confirmation to defer as a regulatory asset all identified COVID-19 financial impacts, with the proceeding currently pending before the PaPUC. A recommended decision from the Administrative Law Judge ("ALJ") was issued on June 30, 2021, recommending the PaPUC deny the inclusion of waived late fees, waived reconnect fees, and additional interest costs. The ALJ decision recommended deferral of additional uncollectible costs not embedded in rates and COVID-19 related incremental direct costs and savings. The Company filed exceptions to this recommended decision on July 20, 2021 and reply exceptions on July 30, 2021, with a final order from the PaPUC expected later in the third quarter of 2021.

Consistent with these regulatory orders, the Company has recorded \$44 million in regulatory assets and \$5 million of regulatory liabilities for the financial impacts related to the COVID-19 pandemic on the Consolidated Balance Sheets as of June 30, 2021.

As of August 2, 2021, four states continue moratoria on the suspension of service disconnections due to non-payment. The moratoria on disconnects have expired in ten states. The Company continues to monitor the COVID-19 pandemic and will continue to comply with the current ordered moratoria and any future moratoria implemented.

Recent Financing Activities

On May 10, 2021, American Water Capital Corp. ("AWCC") completed a \$1.1 billion debt offering, which included the sale of \$550 million aggregate principal amount of its 2.30% senior notes due 2031 and \$550 million aggregate principal amount of its 3.25% senior notes due 2051. Net proceeds of this offering were used to lend funds to parent company and its regulated subsidiaries, to prepay \$327 million in aggregate principal amount of AWCC's outstanding senior notes, to repay AWCC's commercial paper obligations and for general corporate purposes. See Note 8—Long-Term Debt in the Notes to Consolidated Financial Statements for additional information.

As a result of AWCC's prepayment of the various senior notes, a make-whole premium of \$15 million was paid to the holders thereof on June 14, 2021. Substantially all of the early debt extinguishment costs were allocable to the Company's utility subsidiaries and recorded as regulatory assets, as the Company believes they are probable of recovery in future rates.

Financial Results

For the three and six months ended June 30, 2021, diluted earnings per share, prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), were \$1.14 and \$1.87, respectively, an increase of \$0.17 and \$0.22 per diluted share, respectively, as compared to the prior year. These increases were primarily driven by continued growth in the Regulated Businesses from infrastructure investment, acquisitions and organic growth, and warmer and drier than normal weather in the second quarter of 2021 in the Northeast. These increases were partially offset by additional costs associated with an increase in claims in 2021 in Homeowner Services Group (“HOS”), including from extreme cold weather across the country during the first quarter of 2021, primarily in Texas and Illinois.

Growth—through capital investment in infrastructure and regulated acquisitions, as well as strategic growth opportunities in the Market-Based Businesses

The Company expects to continue 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 expects to grow the Market-Based Businesses by leveraging its core water and wastewater competencies. The Company plans to invest approximately \$1.9 billion across its footprint in 2021. During the first six months of 2021, the Company invested \$782 million, primarily in the Regulated Businesses, as discussed below:

Regulated Businesses - Growth and Optimization

- \$735 million capital investment in the Regulated Businesses, the majority for infrastructure improvements and replacements; and
- \$39 million to fund acquisitions, including deposits discussed below, in the Regulated Businesses, which added approximately 2,500 water and wastewater customers through the six months ended June 30, 2021, in addition to approximately 8,200 customers added through organic growth through the six months ended June 30, 2021.

On April 6, 2021, the Company’s Pennsylvania subsidiary entered into an agreement to acquire the wastewater assets of the York City Sewer Authority for \$235 million, plus an amount of average daily revenue calculated for the period between the final meter reading and the date of closing. This system currently directly and indirectly through bulk contracts serves more than 45,000 customers. In connection with the execution of the acquisition agreement, the Company’s Pennsylvania subsidiary paid a \$20 million deposit to the seller on April 30, 2021, which is refundable in the event the agreement is terminated prior to closing of the acquisition. The Company expects to close this acquisition in the first half of 2022, pending regulatory approval.

On March 29, 2021, the Company’s New Jersey subsidiary entered into an agreement to acquire the water and wastewater assets of Egg Harbor City for \$22 million. The water and wastewater systems currently serve approximately 1,500 customers each, or 3,000 combined, and are being sold through the New Jersey Water Infrastructure Protection Act process. The Company expects to close this acquisition by the end of 2021, pending regulatory approval.

During July 2021, the Company closed on the acquisition of one regulated wastewater system adding approximately 500 customers, for a total aggregate purchase price of \$4 million. As of August 2, 2021, the Company has entered into agreements for pending acquisitions in the Regulated Businesses to add approximately 86,900 additional customers.

Sale of New York American Water Company, Inc.

On November 20, 2019, the Company and the Company’s New York subsidiary entered into a Stock Purchase Agreement (the “Stock Purchase Agreement”) with Liberty Utilities Co., which it subsequently assigned to its indirect, wholly owned subsidiary Liberty Utilities (Eastern Water Holdings) Corp. (“Liberty”), pursuant to which Liberty will purchase all of the capital stock of the New York subsidiary (the “Stock Purchase”) for an aggregate purchase price of approximately \$608 million in cash, subject to adjustment as provided in the Stock Purchase Agreement. The Company’s regulated New York operations have approximately 125,000 customers in the State of New York. Algonquin Power & Utilities Corp., Liberty’s ultimate parent company, executed and delivered an absolute and unconditional guaranty of the performance of all of the obligations of Liberty under the Stock Purchase Agreement. The Stock Purchase is subject to various conditions, including obtaining approvals and satisfying or waiving other closing conditions. The Stock Purchase Agreement as originally executed provided for an initial termination date of June 30, 2021 (the “Closing End Date”). On June 29, 2021, the parties mutually agreed to extend the Closing End Date to December 31, 2021 in accordance with the terms of the Stock Purchase Agreement, and agreed to extend further the Closing End Date to January 3, 2022 as December 31, 2021 is a federal holiday. No other provision of the Stock Purchase Agreement was modified by this mutual agreement. Liberty may also terminate the Stock Purchase Agreement if any governmental authority initiates a condemnation or eminent domain proceeding against a majority of the consolidated properties of the Company’s New York subsidiary, taken as a whole.

In 2020, the Governor of New York proposed legislation that, among other things, required the New York State Department of Public Service (“NYSDPS”) to study whether private water suppliers should be placed under municipal control. On February 3, 2021, the Governor issued a press release announcing that he directed the NYSDPS Special Counsel to commence and lead a municipalization feasibility study (the “Study”). The Study was released on March 29, 2021 finding that municipalization was feasible and in the public interest. The Study focused primarily on the imminent need for tax relief for the Company’s New York subsidiary’s customers and included recommendations to eliminate the Special Franchise Tax and create a new public authority to potentially acquire all or a portion of the system. Despite the Study’s findings, the legislative session ended without passage of legislation to eliminate the Special Franchise Tax. However, the New York State Senate and New York State Assembly passed legislation creating the North Shore Water Authority (“NSWA”) and the South Shore Water Authority (“SSWA”). The NSWA relates to a small portion of the New York subsidiary’s service area (about 4,700 customers) while the SSWA relates to the largest portion of its service territory (about 120,000 customers). Both bills must be delivered to and signed by the Governor before they can become law. The Company’s New York subsidiary continues to work constructively with the NYSDPS, including through ongoing settlement discussions held in April and July 2021 among all parties to the proceeding, and to take all actions necessary to facilitate the completion of the Stock Purchase. Subject to satisfying or waiving the various conditions to closing, and assuming no prior termination of the Stock Purchase Agreement by Liberty as described above, the Company remains confident that the Stock Purchase will be completed.

The assets and related liabilities of the Company’s New York subsidiary were classified as held for sale on the Consolidated Balance Sheets as of June 30, 2021. See Note 6—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements for additional information.

Operational Excellence

The Company’s adjusted regulated O&M efficiency ratio, which is used as a measure of the operating performance of the Regulated Businesses, was 33.9% for the twelve months ended June 30, 2021, as compared to 34.3% for the twelve months ended June 30, 2020. The improvement in this ratio reflects the continued focus on operating costs, as well as an increase in operating revenues for the Regulated Businesses.

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 excess accumulated deferred income taxes. 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:

(Dollars in millions)	For the Twelve Months Ended June 30,	
	2021	2020
Total operation and maintenance expenses	\$ 1,698	\$ 1,581
Less:		
Operation and maintenance expenses—Market-Based Businesses	422	384
Operation and maintenance expenses—Other	(30)	(17)
Total operation and maintenance expenses—Regulated Businesses	1,306	1,214
Less:		
Regulated purchased water expenses	156	142
Allocation of non-operation and maintenance expenses	45	30
Adjusted operation and maintenance expenses—Regulated Businesses (i)	\$ 1,105	\$ 1,042
Total operating revenues	\$ 3,890	\$ 3,690
Less:		
Operating revenues—Market-Based Businesses	562	533
Operating revenues—Other	(16)	(20)
Total operating revenues—Regulated Businesses	3,344	3,177
Less:		
Regulated purchased water revenues (a)	156	142
Revenue reductions for the amortization of excess accumulated deferred income taxes	(69)	—
Adjusted operating revenues—Regulated Businesses (ii)	\$ 3,257	\$ 3,035
Adjusted O&M efficiency ratio—Regulated Businesses (i) / (ii)	33.9 %	34.3 %

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

Regulatory Matters

General Rate Cases and Infrastructure Surcharges

Presented in the table below are annualized incremental revenues, excluding reductions for the amortization of excess accumulated deferred income tax (“EADIT”) that are generally offset in income tax expense, assuming a constant water sales volume, resulting from general rate case authorizations and infrastructure surcharge authorizations that became effective in the current period:

(In millions)	During the Three Months Ended June 30,		During the Six Months Ended June 30,	
	2021	2020	2021	2020
General rate cases by state:				
Missouri (effective May 28, 2021)	\$ 22	\$ —	\$ 22	\$ —
New York (a)	7	—	7	—
Pennsylvania (effective January 28, 2021)	—	—	70	—
Indiana (b)	—	13	—	13
California (c)	—	—	—	5
Total general rate cases	<u>\$ 29</u>	<u>\$ 13</u>	<u>\$ 99</u>	<u>\$ 18</u>
Infrastructure surcharges by state:				
New Jersey (effective June 28, 2021, June 29, 2020 and January 1, 2020)	\$ 14	\$ 10	\$ 14	\$ 20
Indiana (effective March 17, 2021)	—	—	8	—
Pennsylvania (effective January 1, 2021, April 1, 2020 and January 1, 2020)	—	5	8	15
Illinois (effective January 1, 2021 and January 1, 2020)	—	—	7	7
West Virginia (effective January 1, 2021 and January 1, 2020)	—	—	5	3
Tennessee (d)	—	2	3	2
Missouri (effective June 27, 2020)	—	10	—	10
Total infrastructure surcharges	<u>\$ 14</u>	<u>\$ 27</u>	<u>\$ 45</u>	<u>\$ 57</u>

- (a) The Company’s New York subsidiary implemented additional annualized revenues of \$7 million on May 1, 2021. The increase was deferred with interest from April 1, 2020.
- (b) The Company’s Indiana subsidiary filed for and, on May 4, 2020, received approval to implement a \$13 million increase for the second rate year, effective May 1, 2020.
- (c) The Company’s California subsidiary received approval for the third year (2020) step increase associated with its most recent general rate case authorization, effective January 1, 2020.
- (d) The Company’s Tennessee subsidiary received approval for infrastructure surcharges for annualized incremental revenues of \$3 million, effective January 1, 2021, and received approval on May 11, 2020 for infrastructure surcharges for annualized incremental revenues of \$2 million, effective January 1, 2020.

On August 28, 2020, the Company’s Iowa subsidiary filed a general rate case requesting \$3 million in annualized incremental revenues. An order was issued on June 28, 2021 authorizing an increase of \$1 million. On July 9, 2021, the Company’s Iowa subsidiary filed a Motion for Clarification with respect to the required accelerated flow back of unprotected EADIT over a three-year period to recognize the increase to rate base and incremental revenues as the unprotected EADIT it amortized. The Company’s Iowa subsidiary filed tariffs consistent with the Motion for Clarification on July 16, 2021, and is awaiting a decision from the Iowa Utilities Board on the Motion for Clarification before new rates are implemented.

Effective July 1, 2021, the Company’s Kentucky subsidiary implemented infrastructure surcharges for annualized incremental revenues of \$1 million.

On April 7, 2021, the Company's Missouri subsidiary was authorized additional annualized revenues of \$22 million, effective May 28, 2021, excluding agreed to reductions for EADIT as a result of the TCJA. The EADIT reduction in revenues is \$25 million and is offset by a like reduction in income tax expense. The protected EADIT balance of \$72 million is being returned to customers using the average rate assumption method ("ARAM"), and the unprotected EADIT balance of \$74 million is being returned to customers over 10 years. The \$25 million EADIT reduction includes both the protected and unprotected catch-up period EADIT of \$13 million. The catch-up period of January 1, 2018 through May 31, 2021 covers the period from when the lower federal corporate income tax rate went into effect until new base rates went into effect and will be amortized over 2.5 years.

On March 2, 2021, an administrative law judge ("ALJ") in the Office of Administrative Law of New Jersey filed an Initial Decision ("ID") with the New Jersey Board of Public Utilities (the "NJBP") that recommended denial of a petition filed by the Company's New Jersey subsidiary, which sought approval of acquisition adjustments in rates 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 NJBP issued an order adopting the ALJ's ID without modification. The Company's New Jersey subsidiary is continuing to evaluate next steps, including grounds to move for reconsideration within the time permitted by law. There is no financial impact to the Company as a result of the NJBP's order, since the acquisition adjustments are currently recorded as goodwill on the Consolidated Balance Sheets.

On February 25, 2021, the Company's Pennsylvania subsidiary was authorized additional annualized revenues of \$90 million, effective January 28, 2021, excluding agreed to reductions for EADIT as a result of the TCJA, over two steps. The EADIT reduction in revenues is \$19 million. The overall increase, net of TCJA reductions, is \$71 million in revenues combined over two steps. The first step was effective January 28, 2021 in the amount of \$70 million (\$51 million including TCJA reductions) and the second step will be effective January 1, 2022 in the amount of \$20 million. The protected EADIT balance of \$200 million is being returned to customers using the ARAM, and the unprotected EADIT balance of \$116 million is being returned to customers over 20 years. The \$19 million annually includes both the protected and unprotected EADIT amortizations and a portion of catch-up period EADIT. A bill credit of \$11 million annually for two years returns to customers the remainder of the EADIT catch-up period amortization. The catch-up period of January 1, 2018 through December 31, 2020 covers the period from when the lower federal corporate income tax rate went into effect until new base rates went into effect and will be amortized over two years.

Pending General Rate Case Filings

On April 30, 2021, the Company's West Virginia subsidiary filed a general rate case requesting \$32 million in annualized incremental revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges. The proposed EADIT reduction in revenues is \$1 million and the exclusion for infrastructure surcharges is \$10 million.

On July 1, 2019, the Company's California subsidiary filed a general rate case requesting \$29 million in annualized incremental revenues for 2021, and increases of \$10 million and \$11 million in the escalation year of 2022 and the attrition year of 2023, respectively. On October 11, 2019, the Company filed its 100-day update for the same proceeding and updated the request to \$27 million in annualized incremental revenues for 2021, and increases of \$10 million in both the escalation year of 2022 and the attrition year of 2023, respectively. On September 10, 2020, the California Public Utilities Commission (the "CPUC") approved the Company's California subsidiary's motion for interim rates, establishing a memorandum account to track the difference between interim and final rates adopted by the CPUC in this proceeding, which were effective on January 1, 2021. Following settlement discussions among all parties to the proceeding, on January 22, 2021 and January 25, 2021, the Company's California subsidiary filed with the CPUC a comprehensive settlement entered into among the Company's California subsidiary, the Public Advocates Office, and other intervenors. These settlement agreements resolved all matters in dispute among the parties to the settlements. These settlements, as well as resolution of issues raised by non-settling parties, are now before the CPUC for approval.

On January 22, 2020, the Company's California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2021. On March 12, 2020, the CPUC granted the request for a one year extension of the cost of capital filing to May 1, 2021, to set its authorized cost of capital beginning January 1, 2022. On January 5, 2021, the Company's California subsidiary submitted a request to further delay by one year its cost of capital filing and maintain the authorized cost of capital through 2022. On February 22, 2021, the CPUC denied the request to further delay the cost of capital filing. The Company's California subsidiary submitted its cost of capital application on May 3, 2021. Once approved by the CPUC, the new authorized cost of capital will be effective January 1, 2022.

Pending Infrastructure Surcharge Filings

On June 30, 2021, the Company's West Virginia subsidiary filed for an infrastructure surcharge requesting \$3 million in additional annualized revenues.

On June 28, 2021, the Company's Missouri subsidiary filed for an infrastructure surcharge requesting \$7 million in additional annualized revenues.

Legislative Updates

During 2021, the Company's regulatory jurisdictions enacted the following legislation that has been approved and is effective as of August 2, 2021:

- The Kentucky General Assembly adopted House Bill 465 relating to the acquisition of water and wastewater utilities. The legislation affirms a method in valuing water and wastewater systems above net book value and establishes a timeline of 60 days for Public Service Commission approval of an acquisition.
- Indiana House Enrolled Act 1287 creates a mechanism that reduces the required upfront cost to new customers for a water or wastewater utility to extend service to underserved areas.
- Indiana House Enrolled Act 349 establishes a tax rider for water and wastewater utilities based upon a change in state or federal income tax law. The legislation also requires the Indiana Finance Authority to prioritize loans that secure long-term benefits over shorter term projects.
- New Jersey passed Lead Service Line Replacement Bill, Senate Bill 3398/Assembly Bill 5343, which provides for the replacement of lead service lines within 10 years of the effective date of the bill and authorizes cost recovery of customer-owned lead service lines as an O&M expense plus interest through a semi-annual surcharge.

During 2021, the Company's regulatory jurisdictions enacted the following legislation that has been approved but is not yet effective as of August 2, 2021:

- New Jersey passed Senate Bill 647/House Bill 4825 which strengthens the state's existing Water Quality Accountability Act ("WQAA") by requiring the Department of Environmental Protection to adopt regulations to implement the WQAA, enhancing asset management plans and reporting, upgrading cyber security standards and adding criminal penalties for falsifying reports. Legislation is awaiting the Governor's signature.
- Illinois passed House Bill 414, Low Income Water & Sewer Financial Assistance Program, which authorizes the state's Department of Commerce and Economic Opportunity to institute a water and sewer assistance program for customers of privately and publicly owned systems. The program is modeled off the existing energy supplemental state Low Income Home Energy Assistance Program. Legislation is awaiting the Governor's signature.
- Missouri passed the Water and Sewer Infrastructure Act, Senate Bill 44/House Bill 397, to establish a new statewide surcharge mechanism program which covers replacement of aging water distribution and sewer collection infrastructure. This legislation broadens the eligible projects covered by the current Infrastructure System Replacement Surcharge mechanism and expands its applicability to projects across the state. Legislation has been signed by the Governor with an August 28, 2021 effective date.

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 (a "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 in the particular CPCN.

As such, the Regulated Businesses are periodically subject to condemnation proceedings in the ordinary course of business. For example, a citizens group in Monterey, California successfully added "Measure J" to the November 2018 election ballot asking voters to decide whether the Monterey Peninsula Water Management District (the "MPWMD") should conduct a feasibility study concerning the potential purchase of the Monterey water service system assets (the "Monterey system assets") of the Company's California subsidiary, and, if feasible, to proceed with a purchase of those assets without an additional public vote. This service territory represents approximately 40,000 customers. In November 2018, Measure J was certified to have passed.

In August 2019, the MPWMD's General Manager issued a report that recommends that the MPWMD board (1) develop criteria to determine which water systems should be considered for acquisition; (2) examine the feasibility of acquiring the Monterey system assets and consider public ownership of smaller systems only if the MPWMD becomes the owner of a larger system; (3) evaluate whether the acquisition of the Monterey system assets by the MPWMD is in the public interest and sufficiently satisfies the criterion of "feasible" as provided in Measure J; (4) ensure there is significant potential for cost savings before agreeing to commence an acquisition; and (5) develop more fully alternate operating plans before deciding whether to consider a Resolution of Necessity.

In November 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. On June 12, 2020, the MPWMD issued a draft environmental impact report for the potential acquisition of the Monterey system assets and a related district boundary adjustment that would be required if the MPWMD were to acquire and operate certain of the Monterey system assets located outside the MPWMD's boundaries. On September 15, 2020, the MPWMD gave notice of its intention to appraise the Monterey system assets and related property interests. On September 29, 2020, the Company's California subsidiary declined to make the Monterey system assets and related property interests available for inspection or to comply with any of the other requests contained in the MPWMD's notice. On October 7, 2020, the MPWMD issued a final environmental impact report ("FEIR"), and on November 4, 2020, the MPWMD certified the FEIR, which purports to analyze 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. On November 25, 2020, the Company's California subsidiary filed a petition challenging this certification in court. A hearing on the matter is scheduled for August 30, 2021. See Item 3—Legal Proceedings—Challenge of Certification — Proposed Monterey System Final Environmental Impact Report in the Company's Form 10-K, and Part II, Item 1—Legal Proceedings in this Form 10-Q.

On February 26, 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. On June 28, 2021, LAFCO's board of directors voted to require a third-party independent financial study as to the feasibility of an acquisition by the MPWMD of the Monterey system assets. Approval by LAFCO is a precondition to the MPWMD's ability to file an eminent domain proceeding against the Company's California subsidiary to acquire the Monterey system assets. If the MPWMD were to make a final determination that an acquisition of the Monterey system assets is feasible, it would then need to file a multi-year eminent domain proceeding against the Company's California subsidiary. In that proceeding, it would first need to establish its right to take the Monterey system assets. If such right is established, the amount of just compensation to be paid to the California subsidiary for such assets would then need to be determined. The MPWMD has stated that it anticipates filing such an eminent domain proceeding in late 2021 or early 2022.

Also, five municipalities in the Chicago, Illinois area (approximately 30,300 customers in total) formed a water agency and filed an eminent domain lawsuit against the Company in January 2013, seeking to condemn the water pipeline that serves those five municipalities. Before filing its eminent domain lawsuit, the water agency made an offer of \$38 million for the pipeline. The parties have filed with the court updated valuation reports. A valuation trial has been scheduled for the week of October 25, 2021.

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, 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.

Consolidated Results of Operations

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
(In millions)				
Operating revenues	\$ 999	\$ 931	\$ 1,887	\$ 1,775
Operating expenses:				
Operation and maintenance	431	391	850	774
Depreciation and amortization	158	152	315	297
General taxes	80	75	163	152
Total operating expenses, net	669	618	1,328	1,223
Operating income	330	313	559	552
Other income (expense):				
Interest, net	(101)	(101)	(199)	(197)
Non-operating benefit costs, net	19	12	39	25
Other, net	3	8	7	11
Total other income (expense)	(79)	(81)	(153)	(161)
Income before income taxes	251	232	406	391
Provision for income taxes	44	56	66	91
Net income attributable to common shareholders	\$ 207	\$ 176	\$ 340	\$ 300

Segment Results of Operations

The Company's operating segments are comprised of the revenue-generating components of its business for which separate financial information is internally produced and regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates its business primarily through one reportable segment, the Regulated Businesses segment. The Company also operates market-based businesses that, individually, do not meet the criteria of a reportable segment in accordance with GAAP, and are collectively presented as the Market-Based Businesses, which 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 June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
(In millions)				
Operating revenues	\$ 857	\$ 803	\$ 1,612	\$ 1,523
Operation and maintenance	325	299	645	597
Depreciation and amortization	151	144	298	279
General taxes	76	70	152	142
(Gain) on asset dispositions and purchases	—	(1)	—	(3)
Other income (expenses)	(49)	(56)	(97)	(110)
Income before income taxes	257	236	420	398
Provision for income taxes	42	58	70	98
Net income attributable to common shareholders	215	177	350	300

Operating Revenues

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
(In millions)				
Water services:				
Residential	\$ 491	\$ 474	\$ 921	\$ 873
Commercial	170	142	314	284
Fire service	37	36	74	73
Industrial	34	31	66	63
Public and other	63	62	116	118
Total water services	795	745	1,491	1,411
Wastewater services:				
Residential	38	33	74	64
Commercial	9	9	18	17
Industrial	1	—	2	1
Public and other	4	4	8	7
Total wastewater services	52	46	102	89
Other (a)	10	12	19	23
Total operating revenues	\$ 857	\$ 803	\$ 1,612	\$ 1,523

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
(Gallons in millions)				
Billed water services volumes:				
Residential	42,897	42,408	79,756	77,958
Commercial	18,680	15,798	34,578	32,878
Industrial	8,374	8,058	16,443	16,497
Fire service, public and other	12,544	11,085	23,407	22,631
Total billed water services volumes	82,495	77,349	154,184	149,964

For the three months ended June 30, 2021, operating revenues increased \$54 million, primarily due to: (i) \$53 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states; (ii) \$18 million increase in demand, primarily driven by (a) weather, including warmer and drier than normal weather in the second quarter of 2021 in the Northeast, and (b) lower demand in 2020 as a result of the COVID-19 pandemic; (iii) \$8 million increase from water and wastewater acquisitions, as well as organic growth in existing systems; and (iv) \$24 million decrease in revenues due to the amortization of EADIT, which is generally offset with a reduction in income tax expense.

For the six months ended June 30, 2021, operating revenues increased \$89 million, primarily due to: (i) \$97 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states; (ii) \$20 million increase in demand, primarily driven by (a) weather, including warmer and drier than normal weather in the second quarter of 2021 in the Northeast, and (b) lower demand in 2020 as a result of the COVID-19 pandemic; (iii) \$16 million increase from water and wastewater acquisitions, as well as organic growth in existing systems; and (iv) \$44 million decrease in revenues due to the amortization of EADIT, which is generally offset with a reduction in income tax expense.

Operation and Maintenance

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

(In millions)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Employee-related costs	\$ 129	\$ 119	\$ 259	\$ 244
Production costs	89	81	167	153
Operating supplies and services	58	54	115	110
Maintenance materials and supplies	23	19	47	38
Customer billing and accounting	15	13	32	27
Other	11	13	25	25
Total	\$ 325	\$ 299	\$ 645	\$ 597

For the three months ended June 30, 2021, operation and maintenance expense increased \$26 million primarily due to (i) \$10 million increase in employee-related costs primarily from higher headcount and related compensation expense in support of the growth in the business; (ii) \$8 million increase in production costs primarily due to higher purchased water usage and costs across several subsidiaries; (iii) \$4 million increase in operating supplies and services primarily due to higher fees related to contracted services; and (iv) \$4 million increase in maintenance materials and supplies primarily due to timing of maintenance and tank painting projects in the Company's New Jersey subsidiary.

For the six months ended June 30, 2021, operation and maintenance expense increased \$48 million, primarily due to: (i) \$15 million increase in employee-related costs primarily from higher headcount and related compensation expense in support of the growth in the business; (ii) \$14 million increase in production costs primarily due to higher purchased water usage in the Company's California subsidiary and increased fuel and power costs across several subsidiaries; (iii) \$5 million increase in operating supplies and services primarily due to higher fees related to contracted services; (iv) \$9 million increase in maintenance materials and supplies primarily due to timing of maintenance and tank painting projects in the Company's New Jersey subsidiary; and (v) \$5 million increase in customer billing and accounting primarily due to higher uncollectible costs.

Depreciation and Amortization

For the three and six months ended June 30, 2021, depreciation and amortization increased \$7 million and \$19 million, respectively, primarily due to additional utility plant placed in service from capital infrastructure investments and acquisitions.

General Taxes

For the three and six months ended June 30, 2021, general taxes increased \$6 million and \$10 million, respectively, primarily due to increased capital investments, including acquisitions and an increase in the New Jersey Gross Receipts Tax.

Other Income (Expenses)

For the three and six months ended June 30, 2021, other income (expenses) increased \$7 million and \$13 million, primarily due to the reduction in the non-service cost components of pension and other postretirement benefits expense resulting from higher asset returns.

Provision for Income Taxes

For the three and six months ended June 30, 2021, the Regulated Businesses' provision for income taxes decreased \$16 million and \$28 million, respectively. The Regulated Businesses' effective income tax rate was 16.3% and 24.6% for the three months ended June 30, 2021 and 2020, respectively, and 16.7% and 24.6% for the six months ended June 30, 2021 and 2020, respectively. The decrease in the Regulated Businesses' effective income tax rate for the three and six months ended June 30, 2021 was primarily due to an increase in the amortization of EADIT resulting from the TCJA, pursuant to regulatory orders. The amortization of EADIT is generally offset with reductions in revenue.

Market-Based Businesses

Presented in the table below is information for the Market-Based Businesses:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
(In millions)				
Operating revenues	\$ 146	\$ 132	\$ 283	\$ 260
Operation and maintenance	112	94	219	185
Depreciation and amortization	6	7	11	13
Income before income taxes	26	30	48	60
Provision for income taxes	6	8	12	16
Net income attributable to common shareholders	19	23	36	45

Operating Revenues

For the three and six months ended June 30, 2021, operating revenues increased \$14 million and \$23 million, respectively, primarily due to an increase in capital and O&M projects in the Military Services Group (“MSG”), across several of the Company’s military bases, primarily at the United States Military Academy at West Point, New York, Fort Leonard Wood and Joint Base San Antonio.

Operation and Maintenance

For the three months ended June 30, 2021, operation and maintenance expense increased \$18 million, primarily due to (i) costs associated with MSG from increased capital upgrades as discussed above; and (ii) additional costs associated with an increase of claims in 2021 in HOS.

For the six months ended June 30, 2021, operation and maintenance expense increased \$34 million primarily due to (i) costs associated with MSG from increased capital upgrades as discussed above; and (ii) additional costs associated with an increase of claims in 2021 in HOS, including from extreme cold weather across the country during the first quarter of 2021, primarily in Texas and Illinois.

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, and, if and to the extent necessary, borrowings under AWCC’s revolving credit facility, and, in the future, issuances of equity. The Company’s revolving credit facility provides \$2.25 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 \$2.10 billion. 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. The weighted-average interest rate on AWCC’s outstanding short-term borrowings, including \$500 million of outstanding principal on the Term Loan Facility (as defined below) as of December 31, 2020, was approximately 0.13% and 0.53% at June 30, 2021 and December 31, 2020, respectively.

To ensure adequate liquidity given the impacts of the COVID-19 pandemic on debt and capital markets, on March 20, 2020, AWCC entered into a Term Loan Credit Agreement, by and among parent company, AWCC and the lenders party thereto (the “Term Loan Facility”). The proceeds were used for general corporate purposes of AWCC and American Water and to provide additional liquidity. As of December 31, 2020, \$500 million of principal was outstanding under the Term Loan Facility. The Term Loan Facility commitments terminated at maturity on March 19, 2021 and the Term Loan Facility was repaid in full.

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 June 30, 2021		
	Commercial Paper Limit	Letters of Credit	Total (a)
(In millions)			
Total availability	\$ 2,100	\$ 150	\$ 2,250
Outstanding debt	(606)	(76)	(682)
Remaining availability as of June 30, 2021	<u>\$ 1,494</u>	<u>\$ 74</u>	<u>\$ 1,568</u>

(a) Total remaining availability of \$1.57 billion as of June 30, 2021 may be accessed through revolver draws.

	As of December 31, 2020		
	Commercial Paper Limit	Letters of Credit	Total (a)
(In millions)			
Total availability	\$ 2,100	\$ 150	\$ 2,250
Outstanding debt	(786)	(76)	(862)
Remaining availability as of December 31, 2020	<u>\$ 1,314</u>	<u>\$ 74</u>	<u>\$ 1,388</u>

(a) Total remaining availability of \$1.39 billion as of December 31, 2020 may be accessed through revolver draws.

Presented in the table below is the Company's total available liquidity as of June 30, 2021 and December 31, 2020, respectively:

	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
(In millions)			
Available liquidity as of June 30, 2021	\$ 70	\$ 1,568	\$ 1,638
Available liquidity as of December 31, 2020	\$ 547	\$ 1,388	\$ 1,935

The Company believes that existing sources of liquidity are sufficient to meet its cash requirements for the foreseeable future. Though not currently anticipated, no assurances can be provided that the lenders will 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. See Note 9—Short-Term Debt in the Notes to Consolidated Financial Statements for additional information.

On May 10, 2021, AWCC completed a \$1.1 billion debt offering, which included the sale of \$550 million aggregate principal amount of its 2.30% senior notes due 2031 and \$550 million aggregate principal amount of its 3.25% senior notes due 2051. At the closing of the offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of \$1,086 million. AWCC used the net proceeds of this offering: (i) to lend funds to parent company and its regulated subsidiaries; (ii) to prepay \$251 million aggregate principal amount of AWCC's outstanding 5.77% Series D Senior Notes due December 21, 2021 (the "Series D Notes") and \$76 million aggregate principal amount of AWCC's outstanding 6.55% Series H Senior Notes due May 15, 2023 (the "Series H Notes," and together with the Series D Notes, the "Series Notes"); (iii) to repay AWCC's commercial paper obligations; and (iv) for general corporate purposes. After the prepayments described above, none of the Series D Notes, and approximately \$14 million aggregate principal amount of the Series H Notes, remain outstanding. As a result of AWCC's prepayment of the Series Notes, a make-whole premium of \$15 million was paid to the holders thereof on June 14, 2021. Substantially all of the early debt extinguishment costs were allocable to the Company's utility subsidiaries and recorded as regulatory assets, as the Company believes they are probable of recovery in future rates.

On May 6, 2021, the Company entered into two 10-year treasury lock agreements, with notional amounts of \$125 million and \$150 million, to reduce interest rate exposure on debt, which was subsequently issued on May 10, 2021. These treasury lock agreements had an average fixed rate of 1.58%. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. On May 10, 2021, the Company terminated these two treasury lock agreements with an aggregate notional amount of \$275 million, realizing a net gain of less than \$1 million, to be amortized through interest, net over a 10-year period, in accordance with the terms of the \$1.1 billion new debt issued on May 10, 2021. No ineffectiveness was recognized on hedging instruments for the three and six months ended June 30, 2021 and 2020.

Cash Flows Provided by Operating Activities

Cash flows provided by 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 provided by operating activities:

	For the Six Months Ended June 30,	
	2021	2020
(In millions)		
Net income	\$ 340	\$ 300
Add (less):		
Depreciation and amortization	315	297
Deferred income taxes and amortization of investment tax credits	64	96
Other non-cash activities (a)	(45)	(30)
Changes in working capital (b)	(136)	(104)
Settlement of cash flow hedges	—	(6)
Pension and postretirement healthcare contributions	(18)	(22)
Net cash flows provided by operating activities	<u>\$ 520</u>	<u>\$ 531</u>

(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, accounts payable and accrued liabilities, and other current assets and liabilities, net, less the settlement of cash flow hedges.

For the six months ended June 30, 2021, cash flows provided by operating activities decreased \$11 million, due to a decrease in deferred income taxes and amortization of investment tax credits primarily driven by an increase in the amortization of EADIT and an increase in changes in working capital partially offset by an increase in net income.

Cash Flows Used in Investing Activities

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

	For the Six Months Ended June 30,	
	2021	2020
(In millions)		
Net capital expenditures	\$ (752)	\$ (870)
Acquisitions	(39)	(40)
Other investing activities, net (a)	(43)	(48)
Net cash flows used in investing activities	<u>\$ (834)</u>	<u>\$ (958)</u>

(a) Includes removal costs from property, plant and equipment retirements and proceeds from sale of assets.

For the six months ended June 30, 2021, cash used in investing activities decreased \$124 million, primarily due to the timing of payments for capital expenditures. The Company plans to invest approximately \$1.9 billion across its footprint in 2021.

Cash Flows from Financing Activities

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

(In millions)	For the Six Months Ended June 30,	
	2021	2020
Proceeds from long-term debt	\$ 1,102	\$ 1,163
Repayments of long-term debt	(364)	(166)
(Repayments of) proceeds from term loan	(500)	500
Net proceeds from (repayments of) short-term borrowings	(176)	(367)
Debt issuance costs and make-whole premium on early debt redemption	(26)	(12)
Dividends paid	(209)	(190)
Other financing activities, net (a)	15	13
Net cash flows (used in) provided by financing activities	<u>\$ (158)</u>	<u>\$ 941</u>

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

For the six months ended June 30, 2021, cash flows provided by financing activities decreased \$1,099 million, primarily due to the \$500 million borrowed under the Term Loan Facility during the first quarter of 2020 which was repaid in full at maturity in 2021 and an increase in repayments of long-term debt due to the prepayment of \$327 million in aggregate principal amount of AWCC's outstanding senior notes during the second quarter of 2021, partially offset by lower net repayments of commercial paper borrowings.

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 June 30, 2021, the Company's ratio was 0.62 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 August 2, 2021 as issued by the following rating agencies:

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 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 7—Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information.

Application of Critical Accounting Policies and Estimates

Financial condition of the Company, results of operations and cash flows 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, 2020.

The Company had no significant derivative instruments outstanding as of June 30, 2021.

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 objectives.

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 June 30, 2021.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2021, 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 June 30, 2021, 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 Part I, Item 3—Legal Proceedings, and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 in Part II, Item 1—Legal Proceedings. Capitalized terms used but not otherwise defined herein have the meanings set forth in the Company's Form 10-K.

Alternative Water Supply in Lieu of Carmel River Diversions

Compliance with SWRCB Orders to Reduce Carmel River Diversions

Cal Am continues to work constructively with all appropriate agencies to provide necessary information in connection with obtaining required approvals 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. Beginning in January 2022, Cal Am expects to be able to comply with the diversion reduction requirement schedule contained in the 2016 Order, but continued compliance with the diversion reduction requirements for 2023 and future years will depend on successful development of alternate water supply sources sufficient to meet customer demand. The 2009 Order and the 2016 Order 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, attempts to comply with the 2009 Order and the 2016 Order in the future 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 2009 Order and the 2016 Order.

Monterey Peninsula Water Supply Project

Coastal Development Permit Application

In March 2021, Cal Am provided responses to the Coastal Commission's notice of incomplete application. On June 18, 2021, the Coastal Commission responded, acknowledging the responses and requesting certain additional information before the application could be considered complete. The original jurisdiction application remains pending.

Desalination Plant Development Permit

On May 25, 2021, Cal Am filed a notice of appeal as to the Monterey County Superior Court's January 21, 2021 decision granting in part and denying in part MCWD's petition that challenged Monterey County's approval of Cal Am's combined development permit application. The notice of appeal seeks to challenge the court's decision on Monterey County's statement of overriding considerations. Monterey County filed a notice of appeal as to the same issue on May 26, 2021. On June 22, 2021, MCWD filed cross-appeals on its claims that had been denied by the court.

Challenge of Certification — Proposed Monterey System Acquisition Final Environmental Impact Report

On November 25, 2020, the Company's California subsidiary filed a petition for writ of mandate in Monterey County Superior Court challenging certification of the issuance of a FEIR by MPWMD for the potential acquisition of the Monterey system assets. A hearing on the matter is scheduled for August 30, 2021.

Dunbar, West Virginia Water Main Break Class Action Litigation

On remand of this case to the Circuit Court for further consideration in light of a recent Supreme Court of Appeals decision issued in another case relating to the class certification issued raised, a briefing schedule has been set and, following briefing by all parties, oral argument on the issue of class certification was heard on July 16, 2021. This matter remains pending.

Other Matters

On April 2, 2021, American Water Resources, LLC ("AWR"), an indirect, wholly owned subsidiary of the parent company, received a grand jury subpoena for certain of its records in connection with an investigation by the U.S. Attorney's Office for the Eastern District of New York (the "EDNY"). A portion of HOS, which provides warranty protection programs and other home services to residential customers, is conducted through AWR. The subpoena seeks information about AWR's operations and its contractor network in the New York City metropolitan area. Based on the subpoena and discussions with the EDNY, the investigation does not appear to be focused on the parent company or the operations of any of its other subsidiaries. AWR is fully cooperating with the investigation. While it is not possible at this time to predict the outcome of the investigation or determine the amount, if any, of fines, penalties or other liabilities that may be incurred in connection with it, the Company does not currently believe that the investigation will have a material adverse effect on the Company's results of operations, financial condition or liquidity.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, readers should carefully consider the factors discussed in Part I, 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 Part I, 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, 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 June 30, 2021. From April 1, 2015, the date repurchases under the anti-dilutive stock repurchase program commenced, through June 30, 2021, 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

Adoption of Change of Control Severance Policy

On July 27, 2021, the Executive Development and Compensation Committee (the “Committee”) of the Board of Directors of parent company (the “Board”), in consultation with the Committee’s independent compensation consultant, approved the adoption of a Change of Control Severance Policy (the “Policy”). The Policy provides, subject to certain conditions and limitations, benefits to each of parent company’s officers as defined under rules promulgated under Section 16 of the Exchange Act (each, a “Covered Executive”) in the event of an involuntary termination of the Covered Executive’s employment with the Company without “cause” or if the Covered Executive resigns from employment for “good reason” and within 24 months after the consummation of a “change of control” (each as defined in the Policy) of parent company (a “Covered Termination”). The benefits and payments provided under the Policy are designed to replace and enhance existing benefits payable under the Company’s Executive Severance Policy with respect to a Covered Termination of a Covered Executive following a change of control; however, the Executive Severance Policy remains in effect for employees covered by that policy with respect to an involuntary termination of employment without cause other than following a change of control. In accordance with the Committee’s charter, the Policy was also approved by the independent members of the Board on July 28, 2021.

The Policy provides that, in the event of a Covered Termination, the Chief Executive Officer and each other Covered Executive would be eligible to receive three times and two times, respectively, the sum of (1) such Covered Executive’s annual base salary on the termination date of employment (the “Termination Date”) and (2) the greater of the last annual award paid to the Covered Executive under the Company’s Annual Performance Plan (the “APP”) or the average of the last three such annual APP awards. A Covered Executive will also receive Company-paid COBRA coverage for health, dental and vision benefits for the maximum statutory period, and benefits under any applicable nonqualified deferred compensation plan will be deemed to be fully vested. A Covered Executive will continue to be eligible to participate for six months in the Company’s Employee Assistance Plan and will receive up to 12 months of outplacement services. The Policy also provides that, in the event of a Covered Termination, a Covered Executive would be entitled to receive unpaid base salary due for periods prior to the Termination Date, all of the Covered Executive’s accrued and unused vacation through the Termination Date, and reimbursement of all properly documented reasonable and necessary expenses incurred in connection with employment prior to the Termination Date.

The Policy is deemed to be a plan of the Company covered by the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Policy includes a process to appeal the denial of benefits under ERISA. The Company will not gross up any payments under the Policy for excise taxes imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the “Code”), with respect to a change of control. If the total of lump sum severance payments under the Policy would exceed limits defined in Section 280G of the Code and would result in the imposition of an excise tax under Section 4999 of the Code, the Covered Executive’s benefits will be determined based on a “best net benefit” provision. Compensation payable under the Policy is intended to comply with Section 409A of the Code. Before receiving any severance benefits under the Policy, a Covered Executive will be required to execute a severance agreement and general release waiving any claims against the Company and agreeing to restrictive covenants addressing confidentiality, non-solicitation and non-competition.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
#2.1.1	Stock Purchase Agreement, dated November 20, 2019, by and among American Water Works Company, Inc., New York American Water Company, Inc. and Liberty Utilities Co. (incorporated by reference to Exhibit 2.1 to American Water Works Company, Inc.’s Current Report on Form 8-K, File No. 001-34028, filed November 20, 2019).
2.1.2	Letter Agreement, dated June 29, 2021, by and among the Company, the Company’s New York subsidiary, and Liberty Utilities (Eastern Water Holdings) Corp. (incorporated by reference to Exhibit 2.1 to American Water Works Company, Inc.’s Current Report on Form 8-K, File No. 001-34028, filed June 29, 2021).
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company’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 10, 2020).
4.1	Indenture, dated as of December 4, 2009, between American Water Capital Corp. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.’s Current Report on Form 8-K, File No. 001-34028, filed December 3, 2010).
4.2	Officers’ Certificate of American Water Capital Corp., dated May 14, 2021, establishing the terms and authorizing the issuance of the 2.300% Senior Notes due 2031 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.’s Current Report on Form 8-K, File No. 001-34028, filed May 14, 2021).
4.3	Officers’ Certificate of American Water Capital Corp., dated May 14, 2021, establishing the terms and authorizing the issuance of the 3.250% Senior Notes due 2051 (incorporated by reference to Exhibit 4.2 to American Water Works Company, Inc.’s Current Report on Form 8-K, File No. 001-34028, filed May 14, 2021).
*10.1	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2021 Stock Unit Grant Form for Non-Employee Directors.
*10.2	American Water Works Company, Inc. Executive Severance Policy, as amended and restated as of July 27, 2021.
*10.3	American Water Works Company, Inc. Change of Control Severance Policy, dated as of July 27, 2021.
*31.1	Certification of Walter J. Lynch, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of M. Susan Hardwick, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
**32.1	Certification of Walter J. Lynch, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
**32.2	Certification of M. Susan Hardwick, 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).

Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company will furnish the omitted schedules and exhibits to the SEC upon request.

* Filed herewith.

** Furnished herewith

The Stock Purchase Agreement filed as Exhibit 2.1.1 hereto has been included to provide investors and security holders with information regarding its terms. It is not intended to provide any other factual information about the parties thereto, or any of their respective subsidiaries or affiliates. The representations, warranties and covenants contained in the Stock Purchase Agreement (i) were made by the parties thereto only for purposes of that agreement and as of specific dates; (ii) were made solely for the benefit of the parties to the Stock Purchase Agreement; (iii) may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with the execution of the Stock Purchase Agreement (such disclosures include information that has been included in public disclosures, as well as additional non-public information); (iv) may have been made for the purposes of allocating contractual risk between the parties to the Stock Purchase Agreement instead of establishing these matters as facts; and (v) may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors.

Investors should not rely on the representations, warranties and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of the parties thereto, or any of their respective subsidiaries or affiliates. Additionally, the representations, warranties, covenants, conditions and other terms of the Stock Purchase Agreement may be subject to subsequent waiver or modification. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the Stock Purchase Agreement, which subsequent information may or may not be fully reflected in the Company's public disclosures. The Stock Purchase Agreement should not be read alone, but should instead be read in conjunction with the other information regarding the Company and its New York subsidiary that is or will be contained in, or incorporated by reference into, the reports and other documents that are filed by the Company with the SEC.

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 2nd day of August, 2021.

AMERICAN WATER WORKS COMPANY, INC.
(REGISTRANT)

By /s/ WALTER J. LYNCH
Walter J. Lynch
President and Chief Executive Officer
(Principal Executive Officer)

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

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

AMERICAN WATER WORKS COMPANY, INC.
2017 OMNIBUS EQUITY COMPENSATION PLAN
STOCK UNIT GRANT

This STOCK UNIT GRANT, dated as of May 12, 2021 (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to _____ (the “Participant”).

RECITALS

WHEREAS, the Board of Directors of the Company (the “Board”) has determined to grant each non-employee director of the Company on the date of the Company’s 2021 Annual Meeting of Shareholders a stock unit grant that will be converted to shares of common stock of the Company, par value \$0.01 per share, (the “Company Stock”) at a later date;

WHEREAS, the Participant is a non-employee director on the Board; and

WHEREAS, the Board has determined that the stock unit grant granted to the Participant shall be issued under the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the “Plan”) and the terms and conditions of such stock unit shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant _____ units (the “Stock Units”). Each Stock Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable distribution date, as described in Paragraph 4 below.
2. Stock Unit Account. The Company shall establish and maintain a Stock Unit account as a bookkeeping account on its records (the “Stock Unit Account”) for the Participant and shall record in such Stock Unit Account the number of Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Stock Unit Account established for the Participant.
3. Vesting. The Participant shall be fully vested in the Stock Units credited to the Participant’s Stock Unit Account pursuant to this Grant on the Date of Grant.
4. Distribution. The Stock Units shall be converted to shares of Company Stock and distributed by the Company within thirty (30) days following the earlier of (i) August 12, 2022 (the “Specified Date”) (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), (ii) the Participant’s separation from service (within the meaning of section 409A of the Internal

Revenue Code of 1986, as amended (the “Code”)) with the Company (the “Separation from Service Date”), or (iii) the date of a Change of Control (as defined below) (the “Change of Control Date”). At the time of distribution, all Stock Units shall be converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single distribution of such shares of Company Stock, which shall be issued under the Plan. For purposes of this Grant, the term “Change of Control” shall have the same meaning as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Code and its corresponding regulations.

5. Deferrals. The Participant may make an irrevocable election to defer the Specified Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Stock Units, plus dividend equivalents earned on such Stock Units as described in Paragraph 6 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Specified Date cannot be earlier than five (5) years from the original Specified Date under Paragraph 4 (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Specified Date (or twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Specified Date, the Participant must elect to defer 100% of the Stock Units, including corresponding dividend equivalents, granted to the Participant under this Grant and complete the deferral election form provided to the Participant, in the form attached hereto as Exhibit A or as may subsequently modified in the discretion of the Board. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant’s election pursuant to this Paragraph, if the Separation from Service Date or Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant’s Stock Units, plus corresponding dividend equivalents, will be made as a result of the occurrence of the Separation from Service Date or Change of Control Date, whichever is earlier. If a Specified Date is delayed one or more times pursuant to this Paragraph 5, the new Specified Date shall be referred to as the “Deferred Date.”

6. Dividend Equivalents. Until the earlier of the Specified Date (or the Deferred Date, if elected), Separation from Service Date or Change of Control Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the “Dividend Equivalent Account”) the value of the dividends that would have been distributed if the Stock Units credited to the Participant’s Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Stock Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant’s Dividend Equivalent Account. No interest shall accrue on any dividend equivalents credited to the Participant’s Dividend Equivalent Account.

7. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Stock Units, and, in the event of a Change of Control, the Board may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Board with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Board shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the distribution of the Stock Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock upon conversion of the Stock Units, the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and its Personal Securities Trading and Preclearance Practice; and

(ii) that the shares of Company Stock obtained by the Participant upon the distribution of the Stock Units shall not be transferred or disposed of by any means until

the Participant owns enough shares of Company Stock, or shares underlying stock units convertible into shares of Company Stock, or time-based restricted Company Stock, to meet or exceed five (5) times the Participant's annual cash retainer, which ownership requirement must be satisfied by the fifth (5th) anniversary of the Participant's commencement of service as a director on the Board.

10. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Board in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Board shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Board with respect to this Grant and the Plan.

11. No Rights as Shareholder. The Participant shall not have any rights as a shareholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 6), or the right to vote, with respect to any Stock Units.

12. No Rights to Continued Service. This Grant shall not confer upon the Participant any right to be retained in the service of the Employer (as defined in the Plan) and shall not interfere in any way with the right to terminate the Participant's service at any time. The right to terminate at will the Participant's service at any time for any reason is specifically reserved.

13. Assignment and Transfers. No Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Stock Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Stock Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

14. Withholding. To the extent required by applicable law, the Participant shall be required to pay to the Company, or make other arrangements satisfactory to the Company to provide for the payment of, any federal, state, local or other taxes that the Company is required to withhold with respect to the Grant, vesting or distribution of the Stock Units and dividend equivalents.

15. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

16. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

17. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the records of the Company, or to such other address as the Participant may designate to the Company in writing. Any notice shall be delivered by hand, sent by facsimile, e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means), or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

18. Section 409A of the Code.

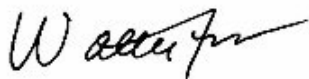
(a) This Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered to avoid any penalty sanctions under section 409A of the Code. If any distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Except according to a valid election made pursuant to Paragraph 5 above, in no event may the Participant designate the calendar year of distribution.

(b) Notwithstanding any provision to the contrary in this Grant, if any of the distributions under this Grant are payable to the Participant upon separation from service (within the meaning of section 409A of the Code) from the Employer, then if at the time of the Participant's separation from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee determination policy, then all distributions to the Participant pursuant to this Grant shall be postponed for a period of six (6) months following the Participant's separation from service from the Employer. The postponed amounts shall be distributed to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer. If the Participant dies during such six (6)-month period and prior to the distribution of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be distributed to the personal representative of the Participant's estate within sixty (60) days after the date of the Participant's death, and any amounts not delayed shall be distributed to the personal representative of the Participant's estate in accordance with the terms of this Grant.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

By: **Walter Lynch**

A handwritten signature in black ink, appearing to read "Walter Lynch", is written over a light gray rectangular background.

Its: President and CEO

EXHIBIT A

SUBSEQUENT DEFERRAL ELECTION FORM

PART A. TIME OF DISTRIBUTION

I, _____, (the "Participant") hereby irrevocably elect to have all of the Stock Units, plus corresponding dividend equivalents, (the "Deferred Units") granted to me pursuant to the Stock Unit Grant, dated as of May 12, 2021, (the "Grant") under the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan") that would have been distributed by American Water Works Company, Inc. to me on the Specified Date (as defined in the Grant), instead be distributed to me on the deferred date designated below (the "Deferred Date"), which date must be at least five (5) years later than the Specified Date, and this election is at least twelve (12) months prior to the Specified Date (to make this deferral election you must defer all of the Stock Units, plus corresponding dividend equivalents, granted to you pursuant the Grant, meaning there is no partial deferral):

Number of Stock Units, and Dividend Equivalents, to be Further Deferred (All Must Be Deferred)	Original Specified Date (Election Must Be Made at Least 12 Months Prior to the Specified Date)	Deferred Date (Must be a date that is at least 5 years later than the Original Specified Date)
100%	August 12, 2022	

PART B. ACKNOWLEDGMENT

I understand and expressly agree that (i) the Deferred Date for the Deferred Units shall be the date I specified in Part A above (which is a date that is at least five (5) years later than the original Specified Date), and (ii) I will not be entitled to receive distribution of the Deferred Units on an earlier date, except in the event that the Separation from Service Date (as defined in the Grant) or the Change of Control Date (as defined in the Grant) occurs prior to the Deferred Date. I also understand and expressly agree that this deferral election is irrevocable, is being made at least twelve (12) months prior to the original Specified Date, and shall not take effect until twelve (12) months after the date on which I make this election. I further understand and agree that the terms and conditions of the Grant and the Plan are hereby incorporated into this form. Lastly, I understand and agree that this deferral election applies to 100% of the Stock Units, and corresponding dividend equivalents, granted to me pursuant to the Grant.

PARTICIPANT SIGNATURE

Participant: _____ Date: _____

Receipt Acknowledged:

By: _____

Title: _____ Date: _____

POLICY DOCUMENT



Executive Severance Policy

Policy Number: POL-_____

Applicability: American Water Works Company, Inc. ("Parent Company") and its controlled subsidiaries (together "American Water" or the "Company")

Effective Date: July 27, 2021

Executive Sponsor: SVP, Chief Human Resources Officer

Document Approver: VP, Compensation & Benefits

Document Owner: Director, Compensation

I. PURPOSE

The purpose of this Executive Severance Policy (this "Policy") is to set forth the severance benefits that will be provided to eligible executive employees of American Water. The Company specifically reserves its right to amend, modify or terminate this Policy in writing at any time (with or without notice) and at its sole discretion, by action of the Committee (as defined below) or its delegate. The Policy is intended to be an employee welfare benefit plan and severance pay plan for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). This document is also intended to serve as the summary plan description for the Policy.

II. POLICY STATEMENT

This Policy applies only to executive employees in American Water salary grade levels 70 and above who are not otherwise covered by an agreement that provides for severance benefits in the event of a covered termination of employment. For purposes of this Policy, an employee who is eligible and is not covered by an agreement that provides for severance benefits, will be referred to as an "Eligible Executive."

Before an Eligible Executive receives any severance benefits provided for under this Policy, the Eligible Executive will be required to execute a Severance Agreement and General Release ("Release") waiving any claims against the Company and agreeing to appropriate restrictive covenants dealing with confidentiality, non-solicitation and non-competition. The Company shall have no obligation to an Eligible Executive under this Policy unless and until the Eligible Executive timely executes a Release and any applicable revocation period has expired without the Eligible Executive revoking such Release. If an Eligible Executive's employment is terminated by the Company for Cause, the Eligible Executive resigns their employment, or their employment is terminated due to retirement, death or disability, the Company would not be obligated to pay severance benefits under this Policy to the Eligible Executive.

No term or provision in this Policy confers upon an Eligible Executive any rights to continued employment by the Company or obligates the Company to employ an Eligible Executive for any specific period of time or interferes with or restricts an Eligible Executive's or the Company's right to terminate employment at any time for any reason and with or without notice.

A. Accrued Wages, Vacation and Expenses

Without regard to the reason for, or the timing of, an Eligible Executive's termination of employment: (i) the Company will pay the Eligible Executive any unpaid base salary due for periods prior to the Termination Date; (ii) the Company will pay the Eligible Executive all of their accrued and unused vacation through the Termination Date; and (iii) following submission of proper expense reports by the Eligible Executive, the Company will

reimburse them for all expenses reasonably and necessarily incurred by them (and which comply with all other policies of the Company) in connection with their employment with the Company prior to the Termination Date. These payments will be made promptly upon termination and within the period of time mandated by law.

B. Severance Benefits for Termination without Cause

In the event an Eligible Executive's employment with the Company is involuntarily terminated by the Company without Cause, then the Eligible Executive shall be entitled to the severance benefits provided below, should the Eligible Executive execute (and not revoke, if applicable) a Release:

(i) Severance Pay. Each Eligible Executive shall receive severance pay in an amount equal to the base salary that would have been paid to the Eligible Executive for a period of time defined below based on the Eligible Executive's annual base salary in effect as of the Termination Date ("Severance Pay"). For purposes of this Policy, the "Termination Date" shall refer to the effective date of an Eligible Executive's termination of employment with the Company, which shall be the last day the Eligible Executive is employed by the Company.

Payments made under this Policy shall be made in accordance with the Release, net of applicable taxes and other lawful deductions, commencing within 60 days following the Eligible Executive's Termination Date, unless further delay is required by law.

Severance Pay for Eligible Executives under this Policy is based on the following time periods:

<u>Salary Grade Level</u>	<u>Severance Period</u>
100	18 months
70 – 95	12 months

(ii) Annual Performance Plan (APP). Each Eligible Executive shall receive a pro rata APP award for the year in which the Termination Date occurs to the extent such payment is made under the terms of the applicable APP. APP eligibility terminates on the Termination Date, and therefore, no APP award shall be earned or accrued for any period of time after the Termination Date.

(iii) Equity Grants. The terms and conditions set forth in the terms of an Eligible Executive's award based upon shares of the common stock of Parent Company including the terms of the plan under which such award was granted, shall govern the impact, if any, of the Eligible Executive's termination of employment on such awards after the Eligible Executive's Termination Date.

(iv) Health, Dental and Vision Coverage. An Eligible Executive will receive Company-paid COBRA benefits consistent with the chart below as of the Termination Date.

<u>Salary Grade Level</u>	<u>Minimum Company paid COBRA benefits (less than 5 years of service)</u>	<u>At least 5 years of service, but less than 10 years of service</u>	<u>10 or more years of service</u>
70 – 100	8 weeks	12 weeks	16 weeks

At the end of the period of Company-paid COBRA benefits, COBRA coverage may be continued by the Eligible Executive at their own expense, for the remaining balance of the statutory coverage period.

If an Eligible Executive is otherwise eligible to retire at the time of termination, they may, if eligible for retiree healthcare, begin retiree healthcare at the appropriate contribution levels after the Company-paid COBRA period expires.

(v) Nonqualified Deferred Compensation Plans/Qualified Retirement Plans. An Eligible Executive shall be deemed to have accrued service as of their Termination Date equivalent to the Severance Pay time period defined in

Section B.(i) under any applicable nonqualified deferred compensation or defined benefit retirement plans in which they participated as of the Termination Date solely for purposes of determining whether the Eligible Executive is vested (e.g., 5 years of service), but not for any other purpose. Nothing in this Policy affects an Eligible Executive's rights under any of the Company's qualified defined benefit pension plans. The timing of payment of the Eligible Executive's benefit under all nonqualified and qualified plans in which they participated prior to the Termination Date shall be governed by the terms of such plan.

(vi) Life Insurance. An Eligible Executive's life insurance benefits will terminate on the Termination Date. Eligible Executives interested in porting or converting their Basic and/or Voluntary Life Insurance to an individual policy must follow the terms of the policy documents.

(vii) Employee Assistance Plan. For a period of six months, an Eligible Executive shall continue to be eligible to participate in the Employee Assistance Plan provided by the Company, subject to the same terms and conditions as are applicable to then current active employees of the Company during the Severance Period.

(viii) Perquisites. All executive perquisites shall terminate effective as of the Eligible Executive's Termination Date.

(ix) Outplacement Services. Each Eligible Executive shall be entitled to outplacement services through a designated provider arranged by the Company for a period ending on the earlier of (i) 12 months following the Termination Date or (ii) the date the Eligible Executive commences employment with another employer. All outplacement services provided by the Company shall be subject to terms and conditions determined at the sole discretion of the Company. No cash shall be paid in lieu of outplacement services.

C. Section 409A

(i) Notwithstanding anything to the contrary in this Policy, if an Eligible Executive is a "specified employee" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended, or any successor law or provision ("Section 409A") at the time of the Eligible Executive's termination of employment, then the severance payable to the Eligible Executive, if any, pursuant to this Policy, when considered together with any other severance payments or separation benefits that are considered deferred compensation under Section 409A (together, the "Deferred Compensation Separation Benefits") that are payable within the first six months following the Eligible Executive's termination of employment, will become payable on the first payroll date that occurs on or after the date six months and one day following the date of the Eligible Executive's termination of employment. All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if the Eligible Executive dies following their termination but prior to the six-month anniversary of their termination, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable to the Eligible Executive's estate after the date of the Eligible Executive's death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Policy is intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(ii) To the extent Section 409A applies, the Policy shall be interpreted to avoid the taxes and penalties imposed under Section 409A, and (1) each payment and benefit payable under this Policy is intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations; (2) the term "termination of employment" shall mean the Eligible Executive's separation from service with the Company and its affiliates within the meaning of Section 409A; (3) all reimbursements and in-kind benefits provided under the Policy shall be made or provided in accordance with the requirements of Section 409A; (4) in no event may an Eligible Executive designate the year of payment for any amounts payable under the Policy; and (5) if the payments and benefits provided for under the Policy are subject to Section 409A, in no event shall the timing of an Eligible Executive's execution of the Release, directly or indirectly, result in the Eligible Executive designating the calendar year of payment, and if a payment that is subject to execution of the Release could be made in more than one taxable year, payment shall be made in the later taxable year.

(iii) This Policy is intended to satisfy the requirements of the "short-term deferral" exception, the "separation pay" exception, and any other applicable exception under Section 409A.

- (iv) Notwithstanding the foregoing, there is no guaranty or assurance as to the tax treatment of benefits and payments under the Policy.

III. RESPONSIBILITIES

This Policy supersedes and hereby voids in their entirety any prior severance policy covering Eligible Executives.

For an Eligible Executive who is Parent Company's CEO, CFO or COO, the independent members of the Board of Directors of Parent Company (the "Board") shall have complete authority, in their sole discretion (subject to the express provisions of this Policy and the recommendations of the Executive Development and Compensation Committee (the "Committee") of the Board), to interpret this Policy and to make any determinations necessary or advisable for the administration of this Policy. For all other Eligible Executives, the Committee shall have complete authority, in its sole discretion (subject to the express provisions of this Policy) to interpret this Policy and to make any determinations necessary or advisable for the administration of this Policy.

For purposes of this Policy, the determination of whether an Eligible Executive's employment was terminated for "Cause" shall be determined at the sole discretion of the Committee or the Board (as the case may be, as described above) and the decision thereof shall be final and binding. The interpretations, determinations, and decisions of the Committee and the Board in all matters relating to the Policy that are within the scope of their respective authorities will be final and binding on all parties.

The Committee and the Board may delegate certain administrative or ministerial matters under this Policy to one or more officers of the Company (or their designees) as determined in the Committee's or Board's discretion.

IV. DEFINITION OF CAUSE

For purposes of this Policy, the term "Cause" shall mean a finding by the Committee or the Board, as the case may be, that the Eligible Executive (i) has breached any employment, service, non-competition, non-solicitation or other agreement or contract with the Company, if any, and, if such breach can be cured by the Eligible Executive, the breach remains uncured after the Eligible Executive receives notice of such breach and is afforded a period of not less than 30 days to remedy the breach; (ii) has persistently refused or willfully failed to perform substantially their duties and responsibilities to the Company, which continues after the Eligible Executive receives notice of such refusal or failure and is afforded a period of not less than 30 days to remedy the refusal or failure; (iii) has engaged in conduct that constitutes disloyalty to the Company or that materially damages the property, business or reputation of the Company; (iv) has engaged in fraud, embezzlement, theft, material misappropriation with respect the business or assets of the Company, or the proven commission of a felony; (v) has disclosed trade secrets or confidential information of the Company to persons not entitled to receive such information; (vi) has breached any written non-competition or non-solicitation agreement between the Eligible Executive and the Company; or (vii) has engaged in such other behavior detrimental to the interests of the Company as the Committee or the Board determines.

V. WAIVERS; MODIFICATIONS

Any deviation or waiver from or exception to this Policy requires the prior written approval of the Board upon recommendation of the Committee for an Eligible Executive who is the CEO, CFO or COO of Parent Company, or the Committee for all other Eligible Executives.

VI. CONTACT INFORMATION; MONITORING

The Senior Vice President, Chief Human Resources Officer and the VP, Compensation and Benefits are responsible for assuring compliance with this Policy.

VII. MISCELLANEOUS

- (i) Headings. The headings used in this document are for convenience of reference only and may not be given any weight in interpreting any provision of the Policy.

(ii) Severability. If a court of competent jurisdiction determines that any term, provision, or portion of the Policy is void, illegal, or unenforceable, the other terms, provisions, and portions of the Policy will remain in full force and effect, and the terms, provisions, and portions that are determined to be void, illegal, or unenforceable will either be limited so that they will remain in effect to the extent permissible by law, or the court will substitute, to the extent enforceable, provisions similar thereto or other provisions, so as to provide to the Company, to the fullest extent permitted by applicable law, the benefits intended by the Policy.

(iii) Governing Law. The Policy will be construed, administered, and regulated in accordance with the laws of the state of New Jersey (excluding any conflicts or choice of law rule or principle), except to the extent that those laws are preempted by federal law.

(iv) Complete Statement of Policy. This document contains a complete statement of the Policy's terms. The Policy may be amended, suspended, or terminated only in writing and then only as provided in Section 1. An Eligible Executive's right to any benefit of a type provided under the Policy will be determined solely in accordance with the terms of the Policy. No other evidence, whether written or oral, will be taken into account in interpreting the provisions of the Policy. Notwithstanding the preceding provisions of this subsection, for purposes of determining benefits with respect to an Eligible Executive, the Policy will be deemed to include the provisions of any other written agreement between the Company and the Eligible Executive to the extent such other agreement explicitly provides for the incorporation of some or all of its terms into the Policy.

(v) Incapacity. If the Plan Administrator determines that any Eligible Executive entitled to benefits under the Policy is unable to care for his or her affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such Eligible Executive to his or her spouse, parent, brother, sister, or other party deemed by the Plan Administrator to have incurred expenses for such Eligible Executive.

(vi) Nonalienation. None of the payments, benefits or rights of any Eligible Executive shall be subject to any claim of any creditor, and, in particular, to the fullest extent permitted by law, all such payments, benefits and rights shall be free from attachment, garnishment, trustee's process, or any other legal or equitable process available to any creditor of the Eligible Executive. No Eligible Executive shall have the right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments which the Eligible Executive may expect to receive, contingently or otherwise, under this Policy.

VIII. GENERAL INFORMATION

- **Plan Name:** American Water Works Company, Inc. Executive Severance Policy
- **Plan Number:** 506
- **Employer/Plan Sponsor:** American Water Works Company, Inc.
- **Employer Identification Number:** 51-0063696
- **Type of Plan:** Welfare benefit – severance pay plan
- **Plan Administrator:** The Executive Development and Compensation Committee of the Board of Directors of American Water Works Company, Inc., at 1 Water Street, Camden, NJ 08102.
- **Agent for Service of Legal Process:** The Plan Administrator, at the above address
- **Sources of Contributions:** The Policy is unfunded and all benefits are paid from the general assets of the Company.
- **Type of Administration:** The Policy is administered by the Plan Administrator
- **Plan Year:** Calendar year

IX. CLAIMS AND APPEALS PROCEDURES

A terminated Eligible Executive does not need to apply for Policy benefits. However, if the terminated Eligible Executive or his or her authorized representative or beneficiary (a "Claimant") wishes to file a claim for benefits, the claim must be in writing and filed with the Committee (or the Board, with respect to Eligible Executives in salary grade level 100). References to the Committee in the remainder of this Section shall be deemed to refer to the Board in the case of Eligible Executives in salary grade level 100.

Adverse Benefit Determinations

If the Committee denies a claim in whole or in part, the Committee will provide notice to the Claimant, in writing, within 90 days after the claim is filed, unless the Committee determines that an extension of time for processing is required. If the Committee determines that the extension is required, it shall furnish written notice of the extension to the Claimant before the end of the initial 90-day period. The extension shall not exceed a period of 90 days from the end of the initial 90-day period and the extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit decision.

If the Committee denies the claim, it shall furnish a written notice of the denial that sets forth, in a manner calculated to be understood by the Claimant: (i) the specific reason or reasons for the denial; (ii) reference to the specific Severance Policy provisions on which the denial is based; (iii) a description of any additional material or information needed for the terminated employee to perfect the claim and an explanation as to why the information is needed; and (iv) an explanation of the Severance Policy's claims procedure and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action in Federal district court under section 502(a) of ERISA following an adverse benefit determination on appeal.

Appeal of Adverse Benefit Determinations

If the initial claim is denied, the Claimant may appeal a claim denial to the Committee for a full and fair review. Specifically, the Claimant may: (i) request a review upon written notice to the Committee within 60 days after receipt of a notice of the denial of a claim for benefits; (ii) submit written comments, documents, records, and other information relating to the claim for benefits; and (iii) examine the Policy and obtain, upon request and without charge, copies of all documents, records, and other information relevant to the Claimant's claim for benefits.

The Committee's review shall take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered by the Committee in the initial benefit determination. A determination on the review by the Committee will be made no later than 60 days after receipt of a request for review, unless the Committee determines that an extension of time for processing is required. If the Committee determines that the extension is required, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 60-day period. The extension shall not exceed a period of 60 days from the end of the initial period and the extension notice shall indicate the special circumstances requiring an extension of time and the date on which the Committee expects to render the determination on review.

If the Committee denies the claim on appeal, it shall furnish a written determination that sets forth, in a manner calculated to be understood by the terminated employee: (i) the specific reason or reasons for the decision; (ii) reference to the specific Severance Policy provisions on which the decision is based; (iii) the terminated employee's right to receive, upon request and without charge, reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits; and (iv) a statement of the claimant's right to bring a civil action in Federal district court under section 502(a) of ERISA.

Claims and Limitations

Claims under the Policy must be brought within a reasonable period of time (but not more than 12 months) following the earliest of (1) the date of an employee's termination of employment or (2) the date the Committee first denied the employee's claim for Policy benefits. If a Claimant follows the entire claims procedure as described above and at the end of the process the claim is denied by the Committee, the Claimant may bring a civil action in Federal district court under Section 502(a) of ERISA. However, any such action must be filed within 180 days after the date of the Committee's final decision on the claim. Any

such legal action must be brought in a court of competent jurisdiction in the state of New Jersey. Any claim or action filed after the expiration of these periods will be time-barred.

No person may bring an action for any alleged wrongful denial of Policy benefits in a court of law unless the claims procedures set forth above are exhausted and a final determination is made by the Committee. If the terminated employee challenges a decision of the Committee in court, judicial review will be limited to the facts, evidence and issues presented to the Committee during the claims procedure set forth above. Issues not raised with the Committee will be deemed waived.

X. ERISA RIGHTS STATEMENT

As a participant in the Policy, you are entitled to certain rights and protections under ERISA. ERISA provides that all Policy participants shall be entitled to:

Receive Information about Your Plan and Benefits

- Examine, without charge, at the Committee's office and at other specified locations, such as worksites and union halls, all documents governing the plan, including insurance contracts and collective bargaining agreements, and a copy of the latest annual report (Form 5500 Series) filed by the plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.
- Obtain, upon written request to the Committee, copies of documents governing the operation of the plan, including insurance contracts and collective bargaining agreements, and copies of the latest annual report (Form 5500 Series) and updated summary plan description. The Committee may make a reasonable charge for the copies.

Prudent Actions by Plan Fiduciaries

In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate your plan, called "fiduciaries" of the plan, have a duty to do so prudently and in the interest of you and other plan participants and beneficiaries. No one, including your employer, your union, or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

Enforce Your Rights

If your claim for a benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the plan and do not receive them within thirty (30) days, you may file suit in federal court as described above. In such a case, the court may require the Committee to provide the materials and pay you up to one hundred ten dollars (\$110) a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that the plan fiduciaries misuse the plan's money or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

Assistance with Your Questions

If you have any questions about your plan, you should contact the Committee. If you have any questions about this statement or about your rights under ERISA, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S.

Department of Labor, 200 Constitution Avenue NW, Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publication hotline of the Employee Benefits Security Administration.

Appendix – Summary of Policies & Practices Related to Executive Severance Policy

Policy	Related Practice
Change of Control Severance Policy	
Separation of Employment Policy	



POLICY DOCUMENT

Change of Control Severance Policy

Policy Number: POL-_____ **Effective Date:** 07/27/2021

Applicability: American Water Works Company, Inc. ("Parent Company") and its controlled subsidiaries (together "American Water" or the "Company")

Executive Sponsor: SVP, Chief Human Resources Officer

Document Approver: VP, Compensation & Benefits

Document Owner: Director, Compensation

I. PURPOSE

The purpose of this Change of Control Severance Policy (the "Policy") is to provide assurances of specified benefits to Eligible Executives of the Company whose employment is subject to being involuntarily terminated other than for death, disability, or Cause or voluntarily terminated for Good Reason in connection with a Change of Control as described in the Policy. The Policy is intended to: (a) assure that the Company will have the continued dedication and objectivity of its Eligible Executives, notwithstanding the possibility, threat or occurrence of a Change of Control and (b) provide Eligible Executives with an incentive to continue their employment and to maximize the value of the Company prior to and following a Change of Control for the benefit of the Company's stockholders. This Policy sets forth the severance benefits that will be provided to Eligible Executives of American Water in the event of a Change of Control. The Company specifically reserves its right to amend, modify or terminate this Policy in writing at any time (with or without notice) and at its sole discretion, by action of the Committee (as defined below) or its delegate. The Policy is intended to be an employee welfare benefit plan and severance pay plan for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). This document is also intended to serve as the summary plan description for the Policy.

II. POLICY STATEMENT

This Policy applies only to employees who (i) have been determined by the Board of Directors of Parent Company (the "Board") to be an "officer," as such term is defined in Rule 16a-1(f) promulgated under the Securities Exchange Act of 1934, as amended, as such rule may be in effect from time to time, with respect Parent Company, and (ii) are not otherwise covered by an agreement that provides for severance benefits in the event of a covered termination of employment. For purposes of this Policy, an employee who is eligible and is not covered by an agreement that provides for severance benefits, will be referred to as an "Eligible Executive."

Before an Eligible Executive receives any severance benefits provided for under this Policy, the Eligible Executive will be required to execute a Severance Agreement and General Release ("Release") waiving any claims against the Company and agreeing to appropriate restrictive covenants dealing with confidentiality, non-solicitation and non-competition. The Company shall have no obligation to an Eligible Executive under this Policy unless and until the Eligible Executive timely executes a Release and any applicable revocation period has expired without the Eligible Executive revoking such Release. If an Eligible Executive's employment is terminated by the Company for Cause, the Eligible Executive resigns their employment, or their employment is terminated due to retirement, death or disability, the Company would not be obligated to pay severance benefits under this Policy to the Eligible Executive.

No term or provision in this Policy confers upon an Eligible Executive any rights to continued employment by the Company or obligates the Company to employ an Eligible Executive for any specific period of time or interferes with or restricts an Eligible Executive's or the Company's right to terminate employment at any time for any reason and with or without notice.

A. Accrued Wages, Vacation and Expenses

Without regard to the reason for, or the timing of, an Eligible Executive's termination of employment: (i) the Company will pay the Eligible Executive any unpaid base salary due for periods prior to the Termination Date; (ii) the Company will pay the Eligible Executive all of their accrued and unused vacation through the Termination Date; and (iii) following submission of proper expense reports by the Eligible Executive, the Company will reimburse them for all expenses reasonably and necessarily incurred by them (and which comply with all other policies of the Company) in connection with their employment with the Company prior to the Termination Date. These payments will be made promptly upon termination and within the period mandated by law.

B. Severance Benefits for Termination without Cause or Resignation for Good Reason in Connection with a Change of Control

In the event the Eligible Executive's employment with the Company is involuntarily terminated by the Company without Cause or if the Eligible Executive resigns from employment for Good Reason, and such termination occurs within the period beginning on the date a Change of Control is consummated and ending 24 months after such date, then Eligible Executive shall be entitled to the severance benefits provided below.

(i) Severance Pay. An Eligible Executive shall receive severance pay, net of applicable taxes and other lawful deductions, which shall be paid to such Eligible Executive in accordance with the Release, either in regular equal payroll installments or as a lump sum commencing within 60 days following the Eligible Executive's Termination Date ("Severance Pay"), in an amount equal to:

- (a) For an Eligible Executive in level 100, an amount equal to 3 times the sum of (a) annual base salary at the Termination Date and (b) the greater of the Eligible Executive's last annual award under the APP or the average of the Eligible Executive's last three annual awards under the APP.
- (b) For Eligible Executives other than in level 100, an amount equal to 2 times the sum of (a) annual base salary at the Termination Date and (b) the greater of the Eligible Executive's last annual award under the APP or the average of the Eligible Executive's last three annual awards under the APP.

(ii) Equity Grants. The terms and conditions set forth in the terms of an Eligible Executive's award based upon shares of the common stock of Parent Company, including the terms of the plan under which such award was granted, shall govern the impact, if any, of the Eligible Executive's termination of employment in connection with a Change of Control on such awards after the Eligible Executive's Termination Date.

(iii) Health, Dental and Vision Coverage. An Eligible Executive will receive Company-paid COBRA benefits for the maximum statutory period; provided, however, that if the Eligible Executive becomes employed with another employer and receives such health and welfare benefits under such other employer's plan, the Company's health and welfare benefits will be secondary to those provided under such other plan.

(iv) Nonqualified Deferred Compensation Plan. An Eligible Executive's benefits shall be deemed to be fully vested under any applicable nonqualified deferred compensation plan. The timing of payment of the Eligible Executive's benefit under such nonqualified deferred compensation plan shall be governed by the terms of such plan.

(v) Life Insurance. An Eligible Executive's life insurance benefits will terminate on the Termination Date. Eligible Executives interested in porting or converting their Basic and/or Voluntary Life Insurance to an individual policy must follow the terms of the policy documents.

(vi) Employee Assistance Plan. For a period of six months, an Eligible Executive shall continue to be eligible to participate in the Employee Assistance Plan provided by Company, subject to the same terms and conditions as are applicable to then-current active employees of the Company during the Severance Period.

(vii) Perquisites. All executive perquisites shall terminate effective as of the Eligible Executive's Termination Date.

(viii) Outplacement Services. Each Eligible Executive shall be entitled to outplacement services through a designated provider arranged by the Company for a period ending on the earlier of (i) 12 months following the Termination Date or (ii) the date the Eligible Executive commences employment with another employer. All outplacement services provided by the Company shall be subject to terms and conditions determined at the sole discretion of the Company. No cash shall be paid in lieu of outplacement services.

C. Section 409A

(i) Notwithstanding anything to the contrary in this Policy, if an Eligible Executive is a "specified employee" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "IRC"), or any successor law or provision ("Section 409A"), at the time of the Eligible Executive's termination of employment, then the severance payable to the Eligible Executive, if any, pursuant to this Policy, when considered together with any other severance payments or separation benefits that are considered deferred compensation under Section 409A (together, the "Deferred Compensation Separation Benefits") that are payable within the first six months following the Eligible Executive's termination of employment, will become payable on the first payroll date that occurs on or after the date six months and one day following the date of the Eligible Executive's termination of employment. All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if the Eligible Executive dies following their termination but prior to the six-month anniversary of their termination, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable to the Eligible Executive's estate after the date of the Eligible Executive's death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Policy is intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(ii) To the extent Section 409A applies, the Policy shall be interpreted to avoid the taxes and penalties imposed under Section 409A, and (1) each payment and benefit payable under this Policy is intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations; (2) the term "termination of employment" shall mean the Eligible Executive's separation from service with the Company and its affiliates within the meaning of Section 409A; (3) all reimbursements and in-kind benefits provided under the Policy shall be made or provided in accordance with the requirements of Section 409A; (4) in no event may an Eligible Executive designate the year of payment for any amounts payable under the Policy; and (5) if the payments and benefits provided for under the Policy are subject to Section 409A, in no event shall the timing of an Eligible Executive's execution of the Release, directly or indirectly, result in the Eligible Executive designating the calendar year of payment, and if a payment that is subject to execution of the Release could be made in more than one taxable year, payment shall be made in the later taxable year.

(iii) This Policy is intended to satisfy the requirements of the "short-term deferral" exception, the "separation pay" exception, and any other applicable exception under Section 409A.

(iv) Notwithstanding the foregoing, there is no guaranty or assurance as to the tax treatment of benefits and payments under the Policy.

D. Section 280G

The Company will not gross up any payments under this Policy for excise taxes imposed by Section 4999 of the IRC.

Notwithstanding anything herein to the contrary, if any of the payments or benefits received or to be received by an Eligible Executive pursuant to this Policy (which will not include any portion of payments allocated to any non-solicitation or non-competition covenants or agreements classified as payments of reasonable compensation for purposes of Section 280G of the IRC), when taken together with payments and benefits provided to an Eligible Executive under any other plans, contracts, policies or arrangements with the Company (all such payments and

benefits, the "Total Payments"), will be subject to any excise tax imposed under Section 4999 of the IRC (together with any interest or penalties, the "Excise Tax"), then such Total Payments will be reduced to the extent necessary so that no portion thereof will be subject to the Excise Tax; provided, however, that if an Eligible Executive would receive in the aggregate greater value (as determined under Section 280G of the IRC and the regulations thereunder) on an after-tax basis and as if the Total Payments were not subject to such reduction, then no such reduction will be made. To effectuate the reduction described above, if applicable, the Company will first reduce or eliminate the payments and benefits provided under this Policy.

III. RESPONSIBILITIES

For an Eligible Executive who is Parent Company's CEO, CFO or COO, the independent members of the Board shall have complete authority, in their sole discretion (subject to the express provisions of this Policy and the recommendations of the Executive Development and Compensation Committee (the "Committee") of the Board), to interpret this Policy and to make any determinations necessary or advisable for the administration of this Policy. For all other Eligible Executives, the Committee shall have complete authority, in its sole discretion (subject to the express provisions of this Policy) to interpret this Policy and to make any determinations necessary or advisable for the administration of this Policy.

For purposes of this Policy, the determination of whether an Eligible Executive's employment was terminated for "Cause" shall be determined at the sole discretion of the Committee or the Board (as the case may be as described above) and the decision thereof shall be final and binding. The interpretations, determinations, and decisions of the Committee and the Board in all matters relating to the Policy that are within the scope of their respective authorities will be final and binding on all parties.

The Committee and the Board may delegate certain administrative or ministerial matters under this Policy to one or more officers of the Company (or their designees) as determined in the Committee's or Board's discretion.

IV. DEFINITIONS

Cause – a finding by the Committee or the Board as the case may be, that the Eligible Executive (i) has breached any employment, service, non-competition, non-solicitation or other agreement or contract with the Company, if any, and, if such breach can be cured by the Eligible Executive, the breach remains uncured after the Eligible Executive receives notice of such breach and is afforded a period of not less than 30 days to remedy the breach; (ii) has persistently refused or willfully failed to perform substantially their duties and responsibilities to the Company, which continues after the Eligible Executive receives notice of such refusal or failure and is afforded a period of not less than 30 days to remedy the refusal or failure; (iii) has engaged in conduct that constitutes disloyalty to the Company or that materially damages the property, business or reputation of the Company; (iv) has engaged in fraud, embezzlement, theft, material misappropriation with respect to the business or assets of the Company, or the proven commission of a felony; (v) has disclosed trade secrets or confidential information of the Company to persons not entitled to receive such information; (vi) has breached any written non-competition or non-solicitation agreement between the Eligible Executive and the Company; or (vii) has engaged in such other behavior detrimental to the interests of the Company as the Committee or the Board determines.

Change of Control – a change of control shall be deemed to have occurred if:

- (i) Any "person" (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934 ("Exchange Act")) becomes (x) during the 12-month period ending on the date of any acquisition of securities, a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 35% of the voting power of the then outstanding securities of the Company, or (y) a "beneficial owner," as defined in clause (x) above, of more than 50% of the voting power of the then outstanding securities of the Company;
- (ii) The consummation of (a) a merger or consolidation of the Company with another corporation where the stockholders of the Company, immediately prior to the merger or consolidation, will not beneficially own, immediately after the merger or consolidation, shares entitling such stockholders to more than 50% of all votes to which all shareholders of the surviving corporation would be entitled in the election of directors, or (b) a sale or other disposition of all or substantially all of the assets of the Company; or

- (iii) During any period of 12 consecutive months, directors are elected such that a majority of the members of the Board are individuals who shall not have been members of the Board of Directors at the beginning of such 12-month period, except (x) in the case of a director's death or (y) the election or nomination for election of each new director who was not a director at the beginning of such 12-month period where such election was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

Good Reason – means any of the following circumstances, provided that (a) the Eligible Executive provides written notification of such circumstances to the Company (or, if applicable, a Subsidiary) no later than 90 days from the original occurrence of such circumstances, (b) the Company (or the Subsidiary) fails to fully correct such circumstances within 30 days of receipt of such notification, and (c) the Eligible Executive terminates their employment with the Company within 12 months after the original occurrence of such circumstances:

- (i) a material diminution in the authority, duties or responsibilities of the Eligible Executive from those in effect immediately prior to a Change of Control;
- (ii) a material reduction in the Eligible Executive's base compensation as in effect immediately before the Change of Control;
- (iii) a material diminution in the authority, duties, or responsibilities of the supervisor to whom the Eligible Executive is required to report, from those in effect immediately prior to the Change of Control; or
- (iv) the Company's (or, if applicable, Subsidiary's) requiring the Eligible Executive to be based in any office or location more than 50 miles from that location at which they performed their services immediately prior to the Change of Control, except for travel reasonably required in the performance of the Eligible Executive's responsibilities.

V. WAIVERS; MODIFICATIONS

Any deviation or waiver from or exception to this Policy requires the prior written approval of the Board upon recommendation of the Committee for an Eligible Executive who is the CEO, CFO or COO of Parent Company, and the prior written approval of the Committee for all other Eligible Executives.

VI. CONTACT INFORMATION; MONITORING

The Senior Vice President, Chief Human Resources Officer and the VP, Compensation and Benefits are responsible for compliance with this Policy.

VII. MISCELLANEOUS

- (i) Headings. The headings used in this document are for convenience of reference only and may not be given any weight in interpreting any provision of the Policy.
- (ii) Severability. If a court of competent jurisdiction determines that any term, provision, or portion of the Policy is void, illegal, or unenforceable, the other terms, provisions, and portions of the Policy will remain in full force and effect, and the terms, provisions, and portions that are determined to be void, illegal, or unenforceable will either be limited so that they will remain in effect to the extent permissible by law, or the court will substitute, to the extent enforceable, provisions similar thereto or other provisions, so as to provide to the Company, to the fullest extent permitted by applicable law, the benefits intended by the Policy.
- (iii) Governing Law. The Policy will be construed, administered, and regulated in accordance with the laws of the state of New Jersey (excluding any conflicts or choice of law rule or principle), except to the extent that those laws are preempted by federal law.
- (iv) Complete Statement of Policy. This document contains a complete statement of the Policy's terms. The Policy may be amended, suspended, or terminated only in writing and then only as provided in Section 1. An Eligible Executive's right to any benefit of a type provided under the Policy will be determined solely in accordance with the terms of the Policy. No other evidence, whether written or oral, will be taken into account in interpreting

the provisions of the Policy. Notwithstanding the preceding provisions of this subsection, for purposes of determining benefits with respect to an Eligible Executive, the Policy will be deemed to include the provisions of any other written agreement between the Company and the Eligible Executive to the extent such other agreement explicitly provides for the incorporation of some or all of its terms into the Policy.

(v) **Incapacity.** If the Plan Administrator determines that any Eligible Executive entitled to benefits under the Policy is unable to care for his or her affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such Eligible Executive to his or her spouse, parent, brother, sister, or other party deemed by the Plan Administrator to have incurred expenses for such Eligible Executive.

(vi) **Nonalienation.** None of the payments, benefits or rights of any Eligible Executive shall be subject to any claim of any creditor, and, in particular, to the fullest extent permitted by law, all such payments, benefits and rights shall be free from attachment, garnishment, trustee's process, or any other legal or equitable process available to any creditor of the Eligible Executive. No Eligible Executive shall have the right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments which the Eligible Executive may expect to receive, contingently or otherwise, under this Policy.

VIII. GENERAL INFORMATION

- **Plan Name:** American Water Works Company, Inc. Executive Severance Policy
- **Plan Number:**
- **Employer/Plan Sponsor:** American Water Works Company, Inc.
- **Employer Identification Number:** 51-0063696
- **Type of Plan:** Welfare benefit – severance pay plan
- **Plan Administrator:** The Executive Development and Compensation Committee of the Board of Directors of American Water Works Company, Inc., at 1 Water Street, Camden, NJ 08102
- **Agent for Service of Legal Process:** The Plan Administrator, at the above address
- **Sources of Contributions:** The Policy is unfunded and all benefits are paid from the general assets of the Company.
- **Type of Administration:** The Policy is administered by the Plan Administrator
- **Plan Year:** Calendar year

IX. CLAIMS AND APPEALS PROCEDURES

A terminated Eligible Executive does not need to apply for Policy benefits. However, if the terminated Eligible Executive or his or her authorized representative or beneficiary (a "Claimant") wishes to file a claim for benefits, the claim must be in writing and filed with the Committee (or the Board, with respect to Eligible Executives in salary grade level 100). References to the Committee in the remainder of this Section shall be deemed to refer to the Board in the case of Eligible Executives in salary grade level 100.

Adverse Benefit Determinations

If the Committee denies a claim in whole or in part, the Committee will provide notice to the Claimant, in writing, within 90 days after the claim is filed, unless the Committee determines that an extension of time for processing is required. If the Committee determines that the extension is required, it shall furnish written notice of the extension to the Claimant before the end of the initial 90-day period. The extension shall not exceed a period of 90 days from the end of the initial 90-day period and the extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit decision.

If the Committee denies the claim, it shall furnish a written notice of the denial that sets forth, in a manner calculated to be understood by the Claimant: (i) the specific reason or reasons for the denial; (ii) reference to the specific Severance Policy provisions on which the denial is based; (iii) a description of any additional material or information needed for the terminated employee to perfect the claim and an explanation as to why the information is needed; and (iv) an explanation of the Severance Policy's claims procedure and the time limits applicable to such procedures, including a statement of the Claimant's right to bring a civil action in Federal district court under section 502(a) of ERISA following an adverse benefit determination on appeal.

Appeal of Adverse Benefit Determinations

If the initial claim is denied, the Claimant may appeal a claim denial to the Committee for a full and fair review. Specifically, the Claimant may: (i) request a review upon written notice to the Committee within 60 days after receipt of a notice of the denial of a claim for benefits; (ii) submit written comments, documents, records, and other information relating to the claim for benefits; and (iii) examine the Policy and obtain, upon request and without charge, copies of all documents, records, and other information relevant to the Claimant's claim for benefits.

The Committee's review shall take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered by the Committee in the initial benefit determination. A determination on the review by the Committee will be made no later than 60 days after receipt of a request for review, unless the Committee determines that an extension of time for processing is required. If the Committee determines that the extension is required, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial 60-day period. The extension shall not exceed a period of 60 days from the end of the initial period and the extension notice shall indicate the special circumstances requiring an extension of time and the date on which the Committee expects to render the determination on review.

If the Committee denies the claim on appeal, it shall furnish a written determination that sets forth, in a manner calculated to be understood by the terminated employee: (i) the specific reason or reasons for the decision; (ii) reference to the specific Severance Policy provisions on which the decision is based; (iii) the terminated employee's right to receive, upon request and without charge, reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits; and (iv) a statement of the claimant's right to bring a civil action in Federal district court under section 502(a) of ERISA.

Claims and Limitations

Claims under the Policy must be brought within a reasonable period of time (but not more than 12 months) following the earliest of (1) the date of an employee's termination of employment or (2) the date the Committee first denied the employee's claim for Policy benefits. If a Claimant follows the entire claims procedure as described above and at the end of the process the claim is denied by the Committee, the Claimant may bring a civil action in Federal district court under Section 502(a) of ERISA. However, any such action must be filed within 180 days after the date of the Committee's final decision on the claim. Any such legal action must be brought in a court of competent jurisdiction in the state of New Jersey. Any claim or action filed after the expiration of these periods will be time-barred.

No person may bring an action for any alleged wrongful denial of Policy benefits in a court of law unless the claims procedures set forth above are exhausted and a final determination is made by the Committee. If the terminated employee challenges a decision of the Committee in court, judicial review will be limited to the facts, evidence and issues presented to the Committee during the claims procedure set forth above. Issues not raised with the Committee will be deemed waived.

X. ERISA RIGHTS STATEMENT

As a participant in the Policy, you are entitled to certain rights and protections under ERISA. ERISA provides that all Policy participants shall be entitled to:

Receive Information about Your Plan and Benefits

- Examine, without charge, at the Committee's office and at other specified locations, such as worksites and union halls, all documents governing the plan, including insurance contracts and collective bargaining agreements, and a copy of the latest annual report (Form 5500 Series) filed by the plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.
- Obtain, upon written request to the Committee, copies of documents governing the operation of the plan, including insurance contracts and collective bargaining agreements, and copies of the latest annual report (Form 5500 Series) and updated summary plan description. The Committee may make a reasonable charge for the copies.

Prudent Actions by Plan Fiduciaries

In addition to creating rights for plan participants, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate your plan, called "fiduciaries" of the plan, have a duty to do so prudently and in the interest of you and other plan participants and beneficiaries. No one, including your employer, your union, or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a welfare benefit or exercising your rights under ERISA.

Enforce Your Rights

If your claim for a benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the plan and do not receive them within thirty (30) days, you may file suit in federal court as described above. In such a case, the court may require the Committee to provide the materials and pay you up to one hundred ten dollars (\$110) a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator. If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or federal court. If it should happen that the plan fiduciaries misuse the plan's money or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

Assistance with Your Questions

If you have any questions about your plan, you should contact the Committee. If you have any questions about this statement or about your rights under ERISA, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue NW, Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publication hotline of the Employee Benefits Security Administration.

POLICY DOCUMENT

Appendix – Summary of Policies & Practices Related to Change of Control Severance Policy

Policy	Related Practice
Executive Severance Policy	

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, Walter J. Lynch, 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 consolidated 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(s) 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(s) 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: August 2, 2021

By: /s/ WALTER J. LYNCH
Walter J. Lynch
President and Chief Executive Officer
(Principal Executive Officer)

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, 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 consolidated 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(s) 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(s) 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: August 2, 2021

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

AMERICAN WATER WORKS COMPANY, INC.
CERTIFICATION
PURSUANT TO 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 June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Walter J. Lynch, 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/ WALTER J. LYNCH
Walter J. Lynch
President and Chief Executive Officer
(Principal Executive Officer)
August 2, 2021

AMERICAN WATER WORKS COMPANY, INC.
CERTIFICATION
PURSUANT TO 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 June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Susan Hardwick, 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/ M. SUSAN HARDWICK

M. Susan Hardwick

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

August 2, 2021