
**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, 2022

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 21, 2022</u>
Common Stock, par value \$0.01 per share	181,786,473

TABLE OF CONTENTS

	Page
<u>Forward-Looking Statements</u>	<u>1</u>
<u>Part I. Financial Information</u>	
Item 1. <u>Consolidated Financial Statements</u>	<u>4</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
Item 4. <u>Controls and Procedures</u>	<u>45</u>
<u>Part II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	<u>47</u>
Item 1A. <u>Risk Factors</u>	<u>47</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>47</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>47</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>47</u>
Item 5. <u>Other Information</u>	<u>47</u>
Item 6. <u>Exhibits</u>	<u>48</u>
<u>Signatures</u>	<u>49</u>

* * *

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; the timing and amount of rate and revenue adjustments, including through general rate case filings, filings for infrastructure surcharges and other governmental agency authorizations and proceedings, and filings to address regulatory lag; the Company’s growth and portfolio optimization strategies, including the timing and outcome of pending or future acquisition activity; the ability of the Company’s California subsidiary to obtain adequate alternative water supplies in lieu of diversions from the Carmel River; the amount and allocation of projected capital expenditures and related funding requirements; the Company’s ability to repay or refinance debt; the future impacts of increased or increasing financing costs, inflation and interest rates; the Company’s ability to execute its current and long-term business, operational and capital expenditures strategies; the Company’s ability to finance current operations, capital expenditures and growth initiatives by accessing the debt and equity capital markets; the outcome and impact on the Company of governmental and regulatory proceedings and related potential fines, penalties and other sanctions; the ability to meet or exceed the Company’s stated environmental and sustainability goals, including its greenhouse gas emission reduction, water delivery efficiency and water system resiliency goals; the ability to complete, and the timing and efficacy of, the design, development, implementation and improvement of technology and other strategic initiatives; the impacts to the Company of the COVID-19 pandemic; the ability to capitalize on existing or future utility privatization opportunities; trends in the water and wastewater industries in which the Company operates, including macro trends with respect to the Company’s efforts related to customer, technology and work execution; regulatory, legislative, tax policy or legal developments; and impacts that future significant tax legislation may have on the Company and on its business, results of operations, cash flows and liquidity.

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

- the decisions of governmental and regulatory bodies, including decisions to raise or lower customer rates 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, data and consumer privacy, security and protection, water quality and water quality accountability, contaminants of emerging concern, public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections and changes in federal, state and local executive administrations;
- the Company’s ability to collect, distribute, use, secure and store consumer data in compliance with current or future governmental laws, regulations and policies with respect to data and consumer privacy, security and protection;
- weather conditions and events, climate variability patterns, and natural disasters, including drought or abnormally high rainfall, prolonged and abnormal ice or freezing conditions, strong winds, coastal and intercoastal flooding, pandemics (including COVID-19) and epidemics, earthquakes, landslides, hurricanes, tornadoes, wildfires, electrical storms, sinkholes and solar flares;
- the outcome of litigation and similar governmental and regulatory proceedings, investigations or actions;
- the risks associated with the Company’s aging infrastructure, and its ability to appropriately improve the resiliency of or maintain 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 pipe, equipment (including personal protective equipment), chemicals, electricity, fuel, water and other raw materials, and to address or mitigate supply chain constraints that may result in delays or shortages in, as well as increased costs of, supplies, products and materials that are critical to or used in the Company’s business operations;
- the Company’s ability to successfully meet its operational growth projections, either individually or in the aggregate, and capitalize on growth opportunities, including, among other things, with respect to:
 - acquiring, closing and successfully integrating regulated operations and market-based businesses;
 - the Company’s Military Services Group (“MSG”) entering into new military installation contracts, price redeterminations, and other agreements and contracts with the U.S. government; and
 - realizing anticipated benefits and synergies from new acquisitions;
- risks and uncertainties following the completion of the sale of the Company’s Homeowner Services Group (“HOS”) and its New York subsidiary, including:
 - the Company’s ability to receive any contingent consideration provided for in the HOS sale, as well as amounts due, payable and owing to the Company from time to time under the seller promissory note when due; and
 - the ability of the Company to redeploy successfully and timely the net proceeds of these transactions into the Company’s Regulated Businesses (as defined herein);
- 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;
- access to sufficient debt and/or equity capital on satisfactory terms and when and as needed to support operations and capital expenditures;
- fluctuations in inflation or 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 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) the availability of, or the Company’s compliance with, the terms of applicable tax credits and tax abatement programs, and (iii) the Company’s ability to utilize its 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, 2021 (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, 2022	December 31, 2021
ASSETS		
Property, plant and equipment	\$ 28,531	\$ 27,413
Accumulated depreciation	(6,429)	(6,329)
Property, plant and equipment, net	22,102	21,084
Current assets:		
Cash and cash equivalents	71	116
Restricted funds	26	20
Accounts receivable, net of allowance for uncollectible accounts of \$67 and \$75, respectively	383	271
Unbilled revenues	284	248
Materials and supplies	85	57
Assets held for sale	—	683
Other	169	159
Total current assets	1,018	1,554
Regulatory and other long-term assets:		
Regulatory assets	1,053	1,051
Seller promissory note from the sale of the Homeowner Services Group	720	720
Operating lease right-of-use assets	91	92
Goodwill	1,143	1,139
Postretirement benefit assets	207	193
Other	240	242
Total regulatory and other long-term assets	3,454	3,437
Total assets	\$ 26,574	\$ 26,075

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, 2022	December 31, 2021
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock (\$0.01 par value; 500,000,000 shares authorized; 187,127,525 and 186,880,413 shares issued, respectively)	\$ 2	\$ 2
Paid-in-capital	6,804	6,781
Retained earnings	1,181	925
Accumulated other comprehensive loss	(40)	(45)
Treasury stock, at cost (5,342,229 and 5,269,324 shares, respectively)	(377)	(365)
Total common shareholders' equity	7,570	7,298
Long-term debt	11,023	10,341
Redeemable preferred stock at redemption value	3	3
Total long-term debt	11,026	10,344
Total capitalization	18,596	17,642
Current liabilities:		
Short-term debt	420	584
Current portion of long-term debt	178	57
Accounts payable	196	235
Accrued liabilities	593	701
Accrued taxes	27	176
Accrued interest	93	88
Liabilities related to assets held for sale	—	83
Other	221	217
Total current liabilities	1,728	2,141
Regulatory and other long-term liabilities:		
Advances for construction	294	284
Deferred income taxes and investment tax credits	2,430	2,421
Regulatory liabilities	1,533	1,600
Operating lease liabilities	79	80
Accrued pension expense	262	285
Other	177	180
Total regulatory and other long-term liabilities	4,775	4,850
Contributions in aid of construction	1,475	1,442
Commitments and contingencies (See Note 11)		
Total capitalization and liabilities	\$ 26,574	\$ 26,075

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,	
	2022	2021	2022	2021
Operating revenues	\$ 937	\$ 999	\$ 1,779	\$ 1,887
Operating expenses:				
Operation and maintenance	376	431	740	850
Depreciation and amortization	163	158	321	315
General taxes	71	80	145	163
Total operating expenses, net	610	669	1,206	1,328
Operating income	327	330	573	559
Other income (expense):				
Interest expense	(106)	(101)	(206)	(199)
Interest income	12	—	25	—
Non-operating benefit costs, net	20	19	39	39
Other, net	17	3	32	7
Total other (expense) income	(57)	(79)	(110)	(153)
Income before income taxes	270	251	463	406
Provision for income taxes	52	44	87	66
Net income attributable to common shareholders	\$ 218	\$ 207	\$ 376	\$ 340
Basic earnings per share: (a)				
Net income attributable to common shareholders	\$ 1.20	\$ 1.14	\$ 2.07	\$ 1.87
Diluted earnings per share: (a)				
Net income attributable to common shareholders	\$ 1.20	\$ 1.14	\$ 2.07	\$ 1.87
Weighted-average common shares outstanding:				
Basic	182	182	182	181
Diluted	182	182	182	182

(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,	
	2022	2021	2022	2021
Net income attributable to common shareholders	\$ 218	\$ 207	\$ 376	\$ 340
Other comprehensive income, net of tax:				
Defined benefit pension plan actuarial loss, net of tax of \$0 and \$1 for each of the three months ended June 30, 2022 and 2021, respectively, and \$0 and \$1 for each of the six months ended June 30, 2022 and 2021, respectively	1	1	2	2
Unrealized gain on cash flow hedges, net of tax of \$1 and \$0 for the three months ended June 30, 2022 and 2021, respectively, and \$1 and \$0 for the six months ended June 30, 2022 and 2021, respectively	3	1	3	1
Net other comprehensive income	4	2	5	3
Comprehensive income attributable to common shareholders	<u>\$ 222</u>	<u>\$ 209</u>	<u>\$ 381</u>	<u>\$ 343</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,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 376	\$ 340
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	321	315
Deferred income taxes and amortization of investment tax credits	(33)	64
Provision for losses on accounts receivable	10	18
Pension and non-pension postretirement benefits	(25)	(21)
Other non-cash, net	(2)	(42)
Changes in assets and liabilities:		
Receivables and unbilled revenues	(159)	(58)
Pension and non-pension postretirement benefit contributions	(31)	(18)
Accounts payable and accrued liabilities	(63)	(15)
Accrued taxes	(146)	6
Other assets and liabilities, net	(52)	(69)
Net cash provided by operating activities	196	520
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(995)	(752)
Acquisitions, net of cash acquired	(240)	(39)
Net proceeds from sale of assets	608	—
Removal costs from property, plant and equipment retirements, net	(49)	(43)
Net cash used in investing activities	(676)	(834)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	811	1,102
Repayments of long-term debt	(7)	(364)
Repayments of term loan	—	(500)
Net short-term (repayments) borrowings with maturities less than three months	(164)	(176)
Advances and contributions in aid of construction, net of refunds of \$8 and \$12 for the six months ended June 30, 2022 and 2021, respectively	41	23
Debt issuance costs and make-whole premium on early debt redemption	(7)	(26)
Dividends paid	(228)	(209)
Other, net	(5)	(8)
Net cash provided by (used in) financing activities	441	(158)
Net decrease in cash, cash equivalents and restricted funds	(39)	(472)
Cash, cash equivalents and restricted funds at beginning of period	136	576
Cash, cash equivalents and restricted funds at end of period	\$ 97	\$ 104
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid as of the end of period	\$ 335	\$ 226

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

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

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Par Value	Paid-in-Capital			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 income	—	—	—	—	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 income	—	—	—	—	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.

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, 2022, 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, 2021 (“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 2022:

Standard	Description	Date of Adoption	Application	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	Either modified retrospective or fully retrospective	The standard did not have a material impact on its Consolidated Financial Statements.
Disclosures by Business Entities about Government Assistance	The amendments in this update require additional disclosures regarding government grants and contributions. These disclosures require information on the following three items about government transactions to be provided: information on the nature of transactions and related accounting policy used to account for transactions, the line items on the balance sheet and income statement affected by these transactions including amounts applicable to each line, and significant terms and conditions of the transactions, including commitments and contingencies.	January 1, 2022	Either prospective or retrospective	The standard did not have a material impact on its 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, 2022:

Standard	Description	Date of Adoption	Application	Estimated Effect on the Consolidated Financial Statements
Accounting for Contract Assets and Contract Liabilities from Contracts with Customers	The guidance requires an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Accounting Standards Codification Topic 606, as if it had originated the contracts. The amendments in this update also provide certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination.	January 1, 2023; early adoption permitted	Prospective	The Company is evaluating any impact on its Consolidated Financial Statements, as well as the timing of adoption.
Troubled debt restructurings and vintage disclosures	The main provisions of this standard eliminate the receivables accounting guidance for troubled debt restructurings (“TDRs”) by creditors while enhancing disclosure requirements when a borrower is experiencing financial difficulty. Entities must apply the loan refinancing and restructuring guidance for receivables to determine whether a modification results in a new loan or a continuation of an existing loan. Additionally, the amendments in this update require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases.	January 1, 2023; early adoption permitted	Prospective, with a modified retrospective option for amendments related to the recognition and measurement of TDRs.	The Company is evaluating any impact on its Consolidated Financial Statements, as well as the timing of adoption.

Allowance for Uncollectible Accounts

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

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

	2022	2021
Balance as of January 1	\$ (75)	\$ (60)
Amounts charged to expense	(10)	(18)
Amounts written off	18	4
Less: Allowance for uncollectible accounts included in assets held for sale (a)	—	4
Balance as of June 30	<u>\$ (67)</u>	<u>\$ (70)</u>

- (a) This portion of the allowance for uncollectible accounts is related to the sale of the Company's New York subsidiary, which was completed on January 1, 2022, and is included in assets held for sale on the Consolidated Balance Sheets as of December 31, 2021. See Note 5—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: 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 respective period:

(In millions)	During the Three Months Ended June 30,		During the Six Months Ended June 30,	
	2022	2021	2022	2021
General rate cases by state (a):				
West Virginia (effective February 25, 2022)	\$ —	\$ —	\$ 15	\$ —
California (effective January 1, 2022 and January 1, 2021)	—	—	13	22
Pennsylvania (effective January 1, 2022 and January 28, 2021)	—	—	20	70
Missouri (effective May 28, 2021)	—	22	—	22
Total general rate cases	\$ —	\$ 22	\$ 48	\$ 114
Infrastructure surcharges by state:				
New Jersey (effective June 27, 2022 and June 28, 2021)	\$ 10	\$ 14	\$ 10	\$ 14
Pennsylvania (effective April 1, 2022 and January 1, 2021)	2	—	2	8
Indiana (effective March 21, 2022 and March 17, 2021)	—	—	8	8
West Virginia (effective March 1, 2022 and January 1, 2021)	—	—	3	5
Missouri (effective February 1, 2022)	—	—	12	—
Illinois (effective January 1, 2022 and January 1, 2021)	—	—	6	7
Tennessee (effective January 1, 2021)	—	—	—	3
Total infrastructure surcharges	\$ 12	\$ 14	\$ 41	\$ 45

(a) Excludes authorized increase of \$7 million for the three and six months ended June 30, 2021, for the Company’s New York subsidiary, which was sold on January 1, 2022. See Note 5—Acquisitions and Divestitures for additional information.

On June 16, 2022, the Company’s Hawaii subsidiary was authorized additional annual revenues of \$2 million in its general rate case, effective July 1, 2022, excluding agreed to reductions for EADIT as a result of the Tax Cuts and Jobs Act of 2017 (the “TCJA”).

Effective July 1, 2022, the Company’s Pennsylvania and Kentucky subsidiaries implemented infrastructure surcharges for annualized incremental revenues of \$9 million and \$3 million, respectively.

On February 24, 2022, the Company’s West Virginia subsidiary (“WVAWC”) was authorized additional annual revenues of \$15 million in its general rate case, effective February 25, 2022, excluding agreed to reductions for EADIT as a result of the TCJA. The EADIT reduction in revenues is \$2 million and the exclusion for infrastructure surcharges is \$10 million. Staff of the Public Service Commission of West Virginia moved for reconsideration of the final order on several grounds. The Company filed its response to the Staff’s Petition for Reconsideration on March 28, 2022 in support of the authorized revenue requirement. The matter is currently pending.

On November 18, 2021, the California Public Utilities Commission (the “CPUC”) unanimously approved a final decision in the test year 2021 general rate case filed by the Company’s California subsidiary, which is retroactive to January 1, 2021. The Company’s California subsidiary received authorization for additional annualized water and wastewater revenues of \$22 million, excluding agreed to reductions for EADIT as a result of the TCJA. The EADIT reduction in revenues is \$4 million and is offset by a like reduction in income tax expense. On February 16, 2022, the Company’s California subsidiary received approval to increase rates by \$13 million in 2022 escalation increases, excluding \$4 million of reductions related to the TCJA, which is retroactive to January 1, 2022.

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

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 in revenues of \$19 million for EADIT as a result of the TCJA. 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 was effective January 1, 2022 in the amount of \$20 million. The protected EADIT balance of \$200 million is being returned to customers using the average rate assumptions method, and the unprotected EADIT balance of \$116 million is being returned to customers over 20 years. The \$19 million annual reduction to revenue is comprised of 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 July 1, 2022, the Company’s California subsidiary filed a general rate case requesting an increase in 2024 revenue of \$57 million and a total increase in revenue over the 2024 to 2026 period of \$99 million. The requested increase excludes proposed reductions for EADIT as a result of TCJA.

On July 1, 2022, the Company’s Missouri subsidiary filed a general rate case requesting \$116 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges.

On April 29, 2022, the Company’s Pennsylvania subsidiary filed a general rate case requesting \$185 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges. Public hearings were held on July 19, 2022 through July 21, 2022. Evidentiary hearings are expected to be held in September 2022.

On February 10, 2022, the Company’s Illinois subsidiary filed a general rate case requesting \$71 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges. The requested increase was subsequently updated in the Illinois subsidiary’s June 29, 2022 rebuttal filing, with the request adjusted to \$85 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges. Evidentiary hearings are scheduled to begin on August 9, 2022.

On January 14, 2022, the Company’s New Jersey subsidiary filed a general rate case requesting \$110 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges. Public hearings were held on April 6, 2022. Settlement conferences commenced in May 2022. The matter remains pending before the Office of Administrative Law.

On November 15, 2021, the Company’s Virginia subsidiary filed a general rate case requesting \$15 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA. Interim rates were effective on May 1, 2022, and the difference between interim and final approved rates are subject to refund. Public hearings are scheduled for September 23, 2022 and evidentiary hearings are scheduled to begin on September 27, 2022.

The Company’s California subsidiary submitted its application on May 3, 2021 to set its cost of capital for 2022 through 2024. According to the CPUC’s procedural schedule, a decision setting the authorized cost of capital is expected to be issued in the fourth quarter of 2022.

Pending Infrastructure Surcharge Filings

On July 8, 2022, the Company’s Tennessee subsidiary filed infrastructure surcharges requesting \$3 million in additional annualized revenues.

On June 30, 2022, WVAWC filed an infrastructure surcharge proceeding requesting \$8 million in additional annualized revenues.

On March 4, 2022, the Company's Missouri subsidiary filed an infrastructure surcharge proceeding requesting \$19 million in additional annualized revenues.

Other Regulatory Matters

In September 2020, the CPUC released a decision under its Low-Income Rate Payer Assistance program rulemaking that will require the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would become effective in January 2024. On October 5, 2020, the Company's California subsidiary filed an application for rehearing of the decision and following the CPUC's denial of its rehearing application in September 2021, the Company's California subsidiary filed a petition for writ of review with the California Supreme Court on October 27, 2021. On May 18, 2022, the California Supreme Court issued a writ of review for the Company's California subsidiary's petition and the petitions filed by other entities challenging the decision. These writs were subsequently consolidated for purposes of briefing, argument, and decision. While the Company's California subsidiary believes the petitions have merit, the process will be lengthy as the matter likely will be remanded to the CPUC for further review of the decision. Furthermore, there is no guarantee that the court will require the CPUC to allow utilities to implement a full decoupling water revenue adjustment mechanism.

Note 4: Revenue Recognition

Disaggregated Revenues

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

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

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	\$ 483	\$ 1	\$ 484
Commercial	174	—	174
Fire service	37	—	37
Industrial	38	—	38
Public and other	59	—	59
Total water services	791	1	792
Wastewater services:			
Residential	42	—	42
Commercial	11	—	11
Industrial	1	—	1
Public and other	4	—	4
Total wastewater services	58	—	58
Miscellaneous utility charges	9	—	9
Alternative revenue programs	—	4	4
Lease contract revenue	—	2	2
Total Regulated Businesses	858	7	865
Market-Based Businesses and Other	72	—	72
Total operating revenues	\$ 930	\$ 7	\$ 937

- (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 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 and Other	142	—	142
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 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, 2022:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	\$ 911	\$ 1	\$ 912
Commercial	327	—	327
Fire service	73	—	73
Industrial	74	—	74
Public and other	116	—	116
Total water services	1,501	1	1,502
Wastewater services:			
Residential	83	—	83
Commercial	21	—	21
Industrial	2	—	2
Public and other	7	—	7
Total wastewater services	113	—	113
Miscellaneous utility charges	18	—	18
Alternative revenue programs	—	6	6
Lease contract revenue	—	4	4
Total Regulated Businesses	1,632	11	1,643
Market-Based Businesses and Other	136	—	136
Total operating revenues	\$ 1,768	\$ 11	\$ 1,779

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

Presented in the table below are operating revenues disaggregated for the 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 and Other	275	—	275
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 Market-Based Businesses and Other, certain contracts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Contract assets are recorded when billing occurs subsequent to revenue recognition and are reclassified to accounts receivable when billed and the right to consideration becomes unconditional. Contract liabilities are recorded when the Company receives advances from customers prior to satisfying contractual performance obligations, particularly for construction contracts, and are recognized as revenue when the associated performance obligations are satisfied.

Contract assets of \$72 million and \$71 million are included in unbilled revenues on the Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021, respectively. There were \$109 million of contract assets added during the six months ended June 30, 2022, and \$108 million of contract assets were transferred to accounts receivable during the same period. 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.

Contract liabilities of \$82 million and \$19 million are included in other current liabilities on the Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021, respectively. There were \$128 million of contract liabilities added during the six months ended June 30, 2022, and \$65 million of contract liabilities were recognized as revenue during the same period. 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.

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, 2022, the Company’s operation and maintenance (“O&M”) and capital improvement contracts in Market-Based Businesses and Other 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, 2022, 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 \$574 million as of June 30, 2022, as measured by estimated remaining contract revenue. Some of the Company’s long-term contracts to operate and maintain the federal government’s, a municipality’s or other party’s water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Note 5: Acquisitions and Divestitures***Regulated Businesses******Acquisitions***

On May 27, 2022, the Company’s Pennsylvania subsidiary acquired the public wastewater collection and treatment system assets from the York City Sewer Authority and the City of York for a purchase price of \$235 million, in cash, \$20 million of which was funded as a deposit to the seller in April 2021 in connection with the execution of the acquisition agreement. The system assets serve, directly and indirectly through bulk contracts, more than 45,000 customers. The acquisition was accounted for as a business combination and the preliminary purchase price allocation will be finalized once the valuation of assets acquired has been completed, no later than one year after the acquisition date. The preliminary purchase price allocation consisted primarily of \$231 million of utility plant and \$4 million of goodwill, which is reported in the Company’s Regulated Businesses segment.

In addition to the acquisition of the York wastewater system assets noted above, during the six months ended June 30, 2022, the Company closed on the acquisition of eight regulated water and wastewater systems for an aggregate purchase price of \$25 million. Assets acquired from these acquisitions consisted principally of utility plant.

The pro forma impact of the Company’s acquisitions was not material to the Consolidated Statements of Operations for the periods ended June 30, 2022 and 2021.

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 in the second half of 2022, pending regulatory approval.

Sale of New York American Water Company, Inc.

On January 1, 2022, the Company completed the previously disclosed sale of its regulated utility operations in New York to Liberty Utilities (Eastern Water Holdings) Corp. (“Liberty”), an indirect, wholly owned subsidiary of Algonquin Power & Utilities Corp. Liberty purchased from the Company all of the capital stock of the Company’s New York subsidiary for a purchase price of \$608 million in cash. During the first quarter of 2022, the Company recognized a loss on sale of \$2 million.

Sale of Michigan American Water Company

On February 4, 2022, the Company completed the sale of its operations in Michigan for \$6 million.

Sale of Homeowner Services Group

On December 9, 2021, the Company sold all of the equity interests in subsidiaries that comprised the Company’s Homeowner Services Group (“HOS”) to a wholly owned subsidiary of funds advised by Apax Partners LLP, a global private equity advisory firm (the “Buyer”), for total consideration of approximately \$1.275 billion, resulting in pre-tax gain on sale of \$748 million during the fourth quarter of 2021. The consideration was comprised of \$480 million in cash, a seller promissory note issued by the Buyer in the principal amount of \$720 million, and a contingent cash payment of \$75 million payable upon satisfaction of certain conditions on or before December 31, 2023. See Note 13—Fair Value of Financial Information for additional information relating to the seller promissory note and contingent cash payment. For the three and six months ended June 30, 2022, the Company recorded post-close adjustments, primarily related to working capital, of pre-tax income of \$10 million and \$20 million, respectively, which is included in Other, net on the Consolidated Statements of Operations.

The seller note has a five-year term, is payable in cash, and bears interest at a rate of 7.00% per year during the term. The Company recognized \$12 million and \$25 million of interest income during the three and six months ended June 30, 2022, respectively, from the seller note.

The Company and the Buyer also entered into revenue share agreements, pursuant to which the Company is to receive 10% of the revenue generated from customers who are billed for home warranty services through an applicable Company subsidiary (an “on-bill” arrangement), and 15% of the revenue generated from any future on-bill arrangements entered into after the closing. Unless earlier terminated, this agreement has a term of up to 15 years, which may be renewed for up to two five-year periods. The Company recognized \$2 million and \$4 million of income during the three and six months ended June 30, 2022, respectively, from the revenue share agreements, which is included in Other, net on the Consolidated Statements of Operations.

Note 6: 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, 2022 and 2021, respectively:

	Defined Benefit Pension Plans				Accumulated Other Comprehensive Loss
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss	Loss on Cash Flow Hedges	
Balance as of December 31, 2021	\$ (107)	\$ 1	\$ 67	\$ (6)	\$ (45)
Other comprehensive income before reclassifications	—	—	—	4	4
Amounts reclassified from accumulated other comprehensive loss	—	—	1	—	1
Net other comprehensive income	—	—	1	4	5
Balance as of June 30, 2022	<u>\$ (107)</u>	<u>\$ 1</u>	<u>\$ 68</u>	<u>\$ (2)</u>	<u>\$ (40)</u>
Balance as of December 31, 2020	\$ (106)	\$ 1	\$ 63	\$ (7)	\$ (49)
Other comprehensive loss before reclassifications	—	—	—	1	1
Amounts reclassified from accumulated other comprehensive loss	—	—	2	—	2
Net other comprehensive income	—	—	2	1	3
Balance as of June 30, 2021	<u>\$ (106)</u>	<u>\$ 1</u>	<u>\$ 65</u>	<u>\$ (6)</u>	<u>\$ (46)</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, 2022, the Company paid a quarterly cash dividend of \$0.6550 per share to shareholders of record as of May 10, 2022.

On July 27, 2022, the Company's Board of Directors declared a quarterly cash dividend payment of \$0.6550 per share, payable on September 1, 2022 to shareholders of record as of August 9, 2022. 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 7: Long-Term Debt

On May 5, 2022, American Water Capital Corp. (“AWCC”), issued \$800 million aggregate principal amount of 4.45% senior notes due 2032. At closing, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately \$792 million. AWCC used the net proceeds of the offering: (i) to lend funds to the Company and its subsidiaries in its Regulated Businesses segment; (ii) to repay AWCC’s commercial paper obligations; and (iii) for general corporate purposes.

In April 2022, the Company entered into several 10-year treasury lock agreements, with notional amounts totaling \$400 million, and an average fixed interest rate of 2.89%. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In May 2022, the Company terminated the treasury lock agreements, realizing a net gain of approximately \$4 million, to be amortized through interest, net over a 10-year period, in accordance with the tenor of the debt issuance on May 5, 2022. No ineffectiveness was recognized on hedging instruments for the three and six months ended June 30, 2022.

In addition to the senior notes issued by AWCC as described above, during the six months ended June 30, 2022, the Company’s regulated subsidiaries issued in the aggregate \$11 million of private activity bonds and government funded debt in multiple transactions with annual interest rates of 0.74%, maturing in 2041. During the six months ended June 30, 2022, AWCC and the Company’s regulated subsidiaries made sinking fund payments for, or repaid at maturity, \$7 million in aggregate principal amount of outstanding long-term debt, with annual interest rates ranging from 0.00% to 12.25%, a weighted average interest rate of 2.76%, and maturity dates ranging from 2022 to 2048.

Note 8: Short-Term Debt

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets and, if and to the extent necessary, borrowings under the AWCC revolving credit facility. Additionally, proceeds from the aforementioned sales of HOS and the Company’s New York subsidiary will be used primarily for capital investment in the Regulated Businesses. 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. As of June 30, 2022 and December 31, 2021, there were no borrowings outstanding under the revolving credit facility.

Short-term debt consists of commercial paper and credit facility borrowings totaling \$420 million and \$584 million as of June 30, 2022 and December 31, 2021, respectively. The weighted-average interest rate on AWCC’s outstanding short-term borrowings was approximately 1.67% and 0.20% at June 30, 2022 and December 31, 2021, respectively. As of June 30, 2022 and December 31, 2021, 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:

	As of June 30, 2022		
	Commercial Paper Limit	Letters of Credit	Total (a)
(In millions)			
Total availability	\$ 2,100	\$ 150	\$ 2,250
Outstanding debt	(420)	(75)	(495)
Remaining availability as of June 30, 2022	<u>\$ 1,680</u>	<u>\$ 75</u>	<u>\$ 1,755</u>

(a) Total remaining availability of \$1.76 billion as of June 30, 2022 may be accessed through revolver draws.

(In millions)	As of December 31, 2021		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	\$ 2,100	\$ 150	\$ 2,250
Outstanding debt	(584)	(76)	(660)
Remaining availability as of December 31, 2021	<u>\$ 1,516</u>	<u>\$ 74</u>	<u>\$ 1,590</u>

(a) Total remaining availability of \$1.59 billion as of December 31, 2021 may be accessed through revolver draws.

Presented in the table below is the Company's total available liquidity as of June 30, 2022 and December 31, 2021, respectively:

(In millions)	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of June 30, 2022	\$ 71	\$ 1,755	\$ 1,826
Available liquidity as of December 31, 2021	\$ 116	\$ 1,590	\$ 1,706

Note 9: Income Taxes

The Company's effective income tax rate was 19.3% and 17.5% for the three months ended June 30, 2022 and 2021, respectively, and 18.8% and 16.3% for the six months ended June 30, 2022 and 2021, respectively. The increase in the Company's effective income tax rate for the three and six months ended June 30, 2022 was primarily due to a decrease in the amortization of EADIT pursuant to regulatory orders.

Note 10: Pension and Other Postretirement Benefits

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Components of net periodic pension benefit credit:				
Service cost	\$ 7	\$ 9	\$ 15	\$ 18
Interest cost	16	16	32	33
Expected return on plan assets	(30)	(32)	(61)	(64)
Amortization of prior service credit	(1)	—	(2)	(1)
Amortization of actuarial loss	5	6	10	13
Net periodic pension benefit credit	<u>\$ (3)</u>	<u>\$ (1)</u>	<u>\$ (6)</u>	<u>\$ (1)</u>
Components of net periodic other postretirement benefit credit:				
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	2	2	5	4
Expected return on plan assets	(5)	(5)	(10)	(10)
Amortization of prior service credit	(8)	(8)	(16)	(16)
Net periodic other postretirement benefit credit	<u>\$ (10)</u>	<u>\$ (10)</u>	<u>\$ (19)</u>	<u>\$ (20)</u>

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, 2022, respectively, and 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. There were \$3 million and \$13 million of contributions for the funding of the Company's other postretirement benefit plans for the three and six months ended June 30, 2022, respectively, and no such contributions for the three and six months ended June 30, 2021, respectively. The Company expects to make pension contributions to the plan trusts of \$18 million during the remainder of 2022.

Note 11: Commitments and Contingencies

Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. As of June 30, 2022, the Company has accrued approximately \$6 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 \$3 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 11—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, 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, 2022, \$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, 2022 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.

In February 2020, the *Jeffries* plaintiffs filed a motion seeking class certification on the issues of breach of contract and negligence, and to determine the applicability of punitive damages and a multiplier for those damages if imposed. In July 2020, the Circuit Court entered an order granting the *Jeffries* plaintiffs’ motion for certification of a class regarding certain liability issues but denying certification of a class to determine a punitive damages multiplier. In August 2020, WVAWC filed a Petition for Writ of Prohibition in the Supreme Court of Appeals of West Virginia seeking to vacate or remand the Circuit Court’s order certifying the issues class. On January 28, 2021, the Supreme Court of Appeals remanded the case back to the Circuit Court for further consideration in light of a decision issued in another case relating to the class certification issues raised on appeal. On July 5, 2022, the Circuit Court entered an order again certifying a class to address at trial certain liability issues but not to consider damages. WVAWC is considering whether to challenge the Circuit Court’s latest certification order.

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. In September 2020, the court dismissed all of the Tennessee Plaintiffs' claims in their complaint, except for the breach of contract claims against TAWC, which remain pending. In October 2020, TAWC answered the complaint, and the parties have been engaging in discovery. The court has entered an agreed scheduling order, which sets a hearing in October 2022 to address the question of class certification.

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.

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 CPUC and other government agencies, obtaining necessary permits, and intervention from other parties. In September 2016, the CPUC unanimously approved a final decision to authorize Cal Am to enter into a water purchase agreement for the GWR Project and to construct a pipeline and pump station facilities and recover up to \$50 million in associated incurred costs plus an allowance for funds used during construction ("AFUDC"), subject to meeting certain criteria.

In September 2018, the CPUC unanimously approved another final decision finding that the Water Supply Project meets the CPUC's requirements for a certificate of public convenience and necessity and an additional procedural phase was not necessary to consider alternative projects. The CPUC's 2018 decision concludes that the Water Supply Project is the best project to address estimated future water demands in Monterey, and, in addition to the cost recovery approved in its 2016 decision, adopts Cal Am's cost estimates for the Water Supply Project, which amounted to an aggregate of \$279 million plus AFUDC at a rate representative of Cal Am's actual financing costs. The 2018 final decision specifies the procedures for recovery of all of Cal Am's prudently incurred costs associated with the Water Supply Project upon its completion, subject to the frameworks included in the final decision related to cost caps, operation and maintenance costs, financing, ratemaking and contingency matters. The reasonableness of the Water Supply Project costs will be reviewed by the CPUC when Cal Am seeks cost recovery for the Water Supply Project. Cal Am has incurred \$199 million in aggregate costs as of June 30, 2022 related to the Water Supply Project, which includes \$53 million in AFUDC.

In September 2021, Cal Am, Monterey One Water and the MPWMD reached an agreement on Cal Am's purchase of additional water from an expansion to the GWR Project, which is not expected to produce additional water until 2024 at the earliest. The amended and restated water purchase agreement for the GWR Project expansion is subject to review and approval of the CPUC, and on November 29, 2021, Cal Am filed an application with the CPUC seeking review and approval of the amended and restated water purchase agreement. Cal Am is also requesting rate base treatment of the additional capital investment for certain Cal Am facilities required to maximize the water supply from the expansion to the GWR Project and a related Aquifer Storage and Recovery Project, totaling approximately \$81 million. This amount is in addition to, and consistent in regulatory treatment with, the prior \$50 million of cost recovery for facilities associated with the original water purchase agreement, which was approved by the CPUC in its 2016 final decision.

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. Cal Am responded with the requested additional information on January 11, 2022, and on February 8, 2022, the Coastal Commission requested additional information. 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, 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 requirements 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, further attempts to comply with the 2009 Order and the 2016 Order 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 12: 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,	
	2022	2021	2022	2021
Numerator:				
Net income attributable to common shareholders	\$ 218	\$ 207	\$ 376	\$ 340
Denominator:				
Weighted-average common shares outstanding—Basic	182	182	182	181
Effect of dilutive common stock equivalents	—	—	—	1
Weighted-average common shares outstanding—Diluted	182	182	182	182

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, 2022 and 2021, because their effect would have been anti-dilutive under the treasury stock method.

Note 13: Fair Value of Financial Information
Fair Value of Financial Instruments

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

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

Seller promissory note from the sale of HOS — The carrying amount reported on the Consolidated Balance Sheets for the seller promissory note from the sale of HOS is \$720 million as of June 30, 2022 and December 31, 2021. This amount represents the principal amount owed under the seller note, for which the Company expects to receive full payment. The accounting fair value measurement of the seller note approximated \$693 million and \$720 million as of June 30, 2022 and December 31, 2021, respectively. The accounting fair value measurement is an estimate that is reflective of changes in benchmark interest rates. The seller note is classified as Level 3 within the fair value hierarchy.

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

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

As of June 30, 2022					
	Carrying Amount	At Fair Value			
		Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	\$ 3	\$ —	\$ —	\$ 3	\$ 3
Long-term debt (excluding finance lease obligations)	11,200	9,023	50	1,446	10,519
As of December 31, 2021					
	Carrying Amount	At Fair Value			
		Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	\$ 4	\$ —	\$ —	\$ 6	\$ 6
Long-term debt (excluding finance lease obligations)	10,396	10,121	60	1,637	11,818

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, 2022				
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	\$ 26	\$ —	\$ —	\$ 26
Rabbi trust investments	22	—	—	22
Deposits	7	—	—	7
Other investments	25	—	—	25
Contingent cash payment from the sale of HOS	—	—	72	72
Total assets	80	—	72	152
Liabilities:				
Deferred compensation obligations	24	—	—	24
Total liabilities	24	—	—	24
Total assets	\$ 56	\$ —	\$ 72	\$ 128

	As of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	\$ 21	\$ —	\$ —	\$ 21
Rabbi trust investments	23	—	—	23
Deposits	27	—	—	27
Other investments	17	—	—	17
Contingent cash payment from the sale of HOS	—	—	72	72
Total assets	88	—	72	160
Liabilities:				
Deferred compensation obligations	27	—	—	27
Total liabilities	27	—	—	27
Total assets	\$ 61	\$ —	\$ 72	\$ 133

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 mark-to-market derivatives outstanding as of June 30, 2022.

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.

Contingent cash payment from the sale of HOS—The Company’s contingent cash payment derivative included as part of the consideration from the sale of HOS is included in other long-term assets on the Consolidated Balance Sheets. The fair value of the contingent cash payment is \$72 million, which is estimated using the probability of the outcome of receipt of the \$75 million, a Level 3 input.

Note 14: Leases

The Company has operating and finance leases involving real property, including facilities, utility assets, vehicles, and equipment. Certain operating leases have renewal options ranging from one 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 38 years, five years, and four 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 as of June 30, 2022 and December 31, 2021. 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 2022, \$4 million in 2023 through 2026, and \$48 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 \$3 million and \$4 million for the three months ended June 30, 2022 and June 30, 2021, respectively, and \$6 million and \$7 million for the six months ended June 30, 2022 and June 30, 2021, respectively.

For the three and six months ended June 30, 2022, 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 six months ended June 30, 2022, there were ROU assets obtained in exchange for new operating lease liabilities of \$3 million.

As of June 30, 2022, the weighted-average remaining lease term of the finance lease and operating leases were four years and 18 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, 2022 are \$5 million in 2022, \$10 million in 2023, \$9 million in 2024, \$9 million in 2025, \$8 million in 2026, and \$88 million thereafter. At June 30, 2022, imputed interest was \$43 million.

Note 15: 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. “Market-Based Businesses and Other” includes market-based businesses that, individually, do not meet the criteria of a reportable segment in accordance with GAAP, corporate costs that are not allocated to the Company’s operating segments, eliminations of inter-segment transactions and fair value adjustments and associated income and deductions related to 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 Market-Based Businesses and Other as they are excluded from segment performance measures evaluated by management.

As a result of the sale of HOS, the categories which were previously shown as “Market-Based Businesses” and “Other” have been combined and shown as “Market-Based Businesses and Other.” Segment results for the three and six months ended June 30, 2021 have been adjusted retrospectively to reflect this change.

Presented in the tables below is summarized segment information:

	As of or for the Three Months Ended June 30, 2022		
	Regulated Businesses	Market-Based Businesses and Other	Consolidated
Operating revenues	\$ 865	\$ 72	\$ 937
Depreciation and amortization	157	6	163
Total operating expenses, net	546	64	610
Interest expense	(76)	(30)	(106)
Interest income	—	12	12
Income before income taxes	266	4	270
Provision for income taxes	47	5	52
Net income (loss) attributable to common shareholders	219	(1)	218
Total assets	23,864	2,710	26,574
Cash paid for capital expenditures	568	3	571

	As of or for the Three Months Ended June 30, 2021		
	Regulated Businesses	Market-Based Businesses and Other	Consolidated
Operating revenues	\$ 857	\$ 142	\$ 999
Depreciation and amortization	151	7	158
Total operating expenses, net	552	117	669
Interest expense	(72)	(29)	(101)
Interest income	—	—	—
Income (loss) before income taxes	257	(6)	251
Provision for income taxes	42	2	44
Net income (loss) attributable to common shareholders	215	(8)	207
Total assets	22,445	2,507	24,952
Cash paid for capital expenditures	406	4	410

	As of or for the Six Months Ended June 30, 2022		
	Regulated Businesses	Market-Based Businesses and Other	Consolidated
Operating revenues	\$ 1,643	\$ 136	\$ 1,779
Depreciation and amortization	312	9	321
Total operating expenses, net	1,084	122	1,206
Interest expense	(146)	(60)	(206)
Interest income	—	25	25
Income before income taxes	462	1	463
Provision for income taxes	83	4	87
Net income (loss) attributable to common shareholders	379	(3)	376
Total assets	23,864	2,710	26,574
Cash paid for capital expenditures	990	5	995

	As of or for the Six Months Ended June 30, 2021		
	Regulated Businesses	Market-Based Businesses and Other	Consolidated
Operating revenues	\$ 1,612	\$ 275	\$ 1,887
Depreciation and amortization	298	17	315
Total operating expenses, net	1,095	233	1,328
Interest expense	(143)	(56)	(199)
Interest income	—	—	—
Income (loss) before income taxes	420	(14)	406
Provision (benefit) for income taxes	70	(4)	66
Net income (loss) attributable to common shareholders	350	(10)	340
Total assets	22,445	2,507	24,952
Cash paid for capital expenditures	744	8	752

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, 2021. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about the Company's business, operations and financial performance. The cautionary statements made in this Form 10-Q should be read as applying to all related forward-looking statements whenever they appear in this Form 10-Q. The Company's actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those that are discussed under "Forward-Looking Statements" and elsewhere in this Form 10-Q. The Company has a disclosure committee consisting of members of senior management and other key employees involved in the preparation of the Company's SEC reports. The disclosure committee is actively involved in the review and discussion of the Company's SEC filings.

Overview

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

Financial Results

For the three and six months ended June 30, 2022, diluted earnings per share, prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), were \$1.20 and \$2.07, respectively, an increase of \$0.06 and \$0.20, respectively, per diluted share, as compared to the same periods in the prior year. These increases were primarily driven by the implementation of new rates in the Regulated Businesses from infrastructure investments, offset somewhat by impacts from inflationary pressures estimated at \$0.06 to \$0.08 per share for the year-to-date period. Also, included in the results for the three and six months ended June 30, 2022, are \$0.06 and \$0.12 per share, respectively, from interest income earned on the seller note and income earned on revenue share agreements, which compares to Homeowner Services Group ("HOS") operating results for the three and six months ended June 30, 2021, of \$0.08 and \$0.16 per share, respectively. 2022 results also include \$0.04 and \$0.08 per share for the three and six months, respectively, from the final post-close adjustments from the sale of HOS in 2021. See Note 5—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements for additional information.

Growth Through Capital Investment in Infrastructure and Regulated Acquisitions

The Company continues to grow its businesses, with the majority of its growth to be achieved in the Regulated Businesses through (i) continued capital investment in the Company's infrastructure to provide safe, clean, reliable and affordable water and wastewater services to its customers, and (ii) regulated acquisitions to expand the Company's services to new customers. The Company plans to invest approximately \$2.5 billion across its footprint in 2022. During the first six months of 2022, the Company invested \$1.25 billion, primarily in the Regulated Businesses, as discussed below:

Regulated Businesses - Growth and Optimization

- \$1.0 billion capital investment in the Regulated Businesses, the substantial majority for infrastructure improvements and replacements; and
- \$240 million to fund acquisitions in the Regulated Businesses, which added approximately 51,000 customers, in addition to approximately 8,200 customers added through organic growth. This includes the Company's Pennsylvania subsidiary's acquisition of the wastewater system assets from the York City Sewer Authority and the City of York on May 27, 2022 for a cash purchase price of \$235 million, \$20 million of which was funded as a deposit to the seller in April 2021 in connection with the execution of the acquisition agreement.

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 in the second half of 2022, pending regulatory approval.

As of June 30, 2022, the Company has entered into agreements for pending acquisitions in the Regulated Businesses, including the Egg Harbor City agreement discussed above, to add approximately 29,200 additional customers.

Sale of New York American Water Company, Inc.

On January 1, 2022, the Company completed the previously disclosed sale of its regulated utility operations in New York to Liberty Utilities (Eastern Water Holdings) Corp. (“Liberty”), an indirect, wholly owned subsidiary of Algonquin Power & Utilities Corp. Liberty purchased from the Company all of the capital stock of the Company’s New York subsidiary for a purchase price of \$608 million in cash.

Sale of Michigan American Water Company

On February 4, 2022, the Company completed the sale of its operations in Michigan for \$6 million.

Military Services Group

On June 30, 2022, MSG was awarded a contract for the ownership, operation, maintenance and replacement of the wastewater utility system assets at Naval Station Mayport in Jacksonville, Florida. The contract is effective July 1, 2022 and its total revenue is approximately \$341 million over a 50-year period, subject to an annual economic price adjustment. MSG operates and maintains water and/or wastewater systems and related capital programs as part of the U.S. government’s Utilities Privatization Program. This contract represents the 18th installation in MSG’s footprint and the first contract with respect to a U.S. Navy installation.

Operational Excellence

The Company’s adjusted regulated operation and maintenance (“O&M”) efficiency ratio, which is used as a measure of the operating performance of the Regulated Businesses, was 33.7% for the twelve months ended June 30, 2022, as compared to 33.9% for the twelve months ended June 30, 2021. The ratio reflects an increase in operating revenues for the Regulated Businesses, after considering the adjustment for the amortization of the excess accumulated deferred income taxes (“EADIT”) shown in the table below, as well as the continued focus on operating costs.

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

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

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

(Dollars in millions)	For the Twelve Months Ended June 30,	
	2022	2021
Total operation and maintenance expenses	\$ 1,668	\$ 1,698
Less:		
Operation and maintenance expenses—Market-Based Businesses and Other	352	392
Total operation and maintenance expenses—Regulated Businesses	1,316	1,306
Less:		
Regulated purchased water expenses	152	156
Allocation of non-operation and maintenance expenses	32	45
Adjusted operation and maintenance expenses—Regulated Businesses (i)	\$ 1,132	\$ 1,105
Total operating revenues	\$ 3,822	\$ 3,890
Less:		
Operating revenues—Market-Based Businesses and Other	408	546
Total operating revenues—Regulated Businesses	3,414	3,344
Less:		
Regulated purchased water revenues (a)	152	156
Revenue reductions from the amortization of EADIT	(97)	(69)
Adjusted operating revenues—Regulated Businesses (ii)	\$ 3,359	\$ 3,257
Adjusted O&M efficiency ratio—Regulated Businesses (i) / (ii)	33.7 %	33.9 %

(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 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 respective period:

(In millions)	During the Three Months Ended June 30,		During the Six Months Ended June 30,	
	2022	2021	2022	2021
General rate cases by state (a):				
West Virginia (effective February 25, 2022)	\$ —	\$ —	\$ 15	\$ —
California (effective January 1, 2022 and January 1, 2021)	—	—	13	22
Pennsylvania (effective January 1, 2022 and January 28, 2021)	—	—	20	70
Missouri (effective May 28, 2021)	—	22	—	22
Total general rate cases	\$ —	\$ 22	\$ 48	\$ 114
Infrastructure surcharges by state:				
New Jersey (effective June 27, 2022 and June 28, 2021)	\$ 10	\$ 14	\$ 10	\$ 14
Pennsylvania (effective April 1, 2022 and January 1, 2021)	2	—	2	8
Indiana (effective March 21, 2022 and March 17, 2021)	—	—	8	8
West Virginia (effective March 1, 2022 and January 1, 2021)	—	—	3	5
Missouri (effective February 1, 2022)	—	—	12	—
Illinois (effective January 1, 2022 and January 1, 2021)	—	—	6	7
Tennessee (effective January 1, 2021)	—	—	—	3
Total infrastructure surcharges	\$ 12	\$ 14	\$ 41	\$ 45

(a) Excludes authorized increase of \$7 million for the three and six months ended June 30, 2021, for the Company's New York subsidiary, which was sold on January 1, 2022. See Note 5—Acquisitions and Divestitures for additional information.

On June 16, 2022, the Company's Hawaii subsidiary was authorized additional annual revenues of \$2 million in its general rate case, effective July 1, 2022, excluding agreed to reductions for EADIT as a result of the Tax Cuts and Jobs Act of 2017 (the "TCJA").

Effective July 1, 2022, the Company's Pennsylvania and Kentucky subsidiaries implemented infrastructure surcharges for annualized incremental revenues of \$9 million and \$3 million, respectively.

On February 24, 2022, the Company's West Virginia subsidiary ("WVAWC") was authorized additional annual revenues of \$15 million in its general rate case, effective February 25, 2022, excluding agreed to reductions for EADIT as a result of the TCJA. The EADIT reduction in revenues is \$2 million and the exclusion for infrastructure surcharges is \$10 million. Staff of the Public Service Commission of West Virginia moved for reconsideration of the final order on several grounds. The Company filed its response to the Staff's Petition for Reconsideration on March 28, 2022 in support of the authorized revenue requirement. The matter is currently pending.

On November 18, 2021, the California Public Utilities Commission (the "CPUC") unanimously approved a final decision in the test year 2021 general rate case filed by the Company's California subsidiary, which is retroactive to January 1, 2021. The Company's California subsidiary received authorization for additional annualized water and wastewater revenues of \$22 million, excluding agreed to reductions for EADIT as a result of the TCJA. The EADIT reduction in revenues is \$4 million and is offset by a like reduction in income tax expense. On February 16, 2022, the Company's California subsidiary received approval to increase rates by \$13 million in 2022 escalation increases, excluding \$4 million of reductions related to the TCJA, which is retroactive to January 1, 2022.

On March 2, 2021, an administrative law judge (“ALJ”) in the Office of Administrative Law of New Jersey filed an initial decision with the New Jersey Board of Public Utilities (the “NJBP”) that recommended denial of a petition filed by the Company’s New Jersey subsidiary, which sought approval of acquisition adjustments in rate base of \$29 million associated with the acquisitions of Shorelands Water Company, Inc. in 2017 and the Borough of Haddonfield’s water and wastewater systems in 2015. On July 29, 2021, the NJBP issued an order adopting the ALJ’s initial decision without modification. The Company’s New Jersey subsidiary filed a Notice of Appeal with the New Jersey Appellate Division on September 10, 2021. The Company filed its brief in support of the appeal on March 4, 2022. Response briefs were filed on June 22, 2022. The Company’s reply brief is due on August 4, 2022. 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 in revenues of \$19 million for EADIT as a result of the TCJA. 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 was effective January 1, 2022 in the amount of \$20 million. The protected EADIT balance of \$200 million is being returned to customers using the average rate assumptions method, and the unprotected EADIT balance of \$116 million is being returned to customers over 20 years. The \$19 million annual reduction to revenue is comprised of 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 July 1, 2022, the Company’s California subsidiary filed a general rate case requesting an increase in 2024 revenue of \$57 million and a total increase in revenue over the 2024 to 2026 period of \$99 million. The requested increase excludes proposed reductions for EADIT as a result of TCJA.

On July 1, 2022, the Company’s Missouri subsidiary filed a general rate case requesting \$116 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges.

On April 29, 2022, the Company’s Pennsylvania subsidiary filed a general rate case requesting \$185 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges. Public hearings were held on July 19, 2022 through July 21, 2022. Evidentiary hearings are expected to be held in September 2022.

On February 10, 2022, the Company’s Illinois subsidiary filed a general rate case requesting \$71 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges. The requested increase was subsequently updated in the Illinois subsidiary’s June 29, 2022 rebuttal filing, with the request adjusted to \$85 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges. Evidentiary hearings are scheduled to begin on August 9, 2022.

On January 14, 2022, the Company’s New Jersey subsidiary filed a general rate case requesting \$110 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA and infrastructure surcharges. Public hearings were held on April 6, 2022. Settlement conferences commenced in May 2022. The matter remains pending before the Office of Administrative Law.

On November 15, 2021, the Company’s Virginia subsidiary filed a general rate case requesting \$15 million in additional annualized revenues excluding proposed reductions for EADIT as a result of TCJA. Interim rates were effective on May 1, 2022, and the difference between interim and final approved rates are subject to refund. Public hearings are scheduled for September 23, 2022 and evidentiary hearings are scheduled to begin on September 27, 2022.

The Company’s California subsidiary submitted its application on May 3, 2021 to set its cost of capital for 2022 through 2024. According to the CPUC’s procedural schedule, a decision setting the authorized cost of capital is expected to be issued in the fourth quarter of 2022.

Pending Infrastructure Surcharge Filings

On July 8, 2022, the Company’s Tennessee subsidiary filed infrastructure surcharges requesting \$3 million in additional annualized revenues.

On June 30, 2022, WVAWC filed an infrastructure surcharge proceeding requesting \$8 million in additional annualized revenues.

On March 4, 2022, the Company's Missouri subsidiary filed an infrastructure surcharge proceeding requesting \$19 million in additional annualized revenues.

Other Regulatory Matters

In September 2020, the CPUC released a decision under its Low-Income Rate Payer Assistance program rulemaking that will require the Company's California subsidiary to file a proposal to alter its water revenue adjustment mechanism in its next general rate case filing in 2022, which would become effective in January 2024. On October 5, 2020, the Company's California subsidiary filed an application for rehearing of the decision and following the CPUC's denial of its rehearing application in September 2021, the Company's California subsidiary filed a petition for writ of review with the California Supreme Court on October 27, 2021. On May 18, 2022, the California Supreme Court issued a writ of review for the Company's California subsidiary's petition and the petitions filed by other entities challenging the decision. These writs were subsequently consolidated for purposes of briefing, argument, and decision. While the Company's California subsidiary believes the petitions have merit, the process will be lengthy as the matter likely will be remanded to the CPUC for further review of the decision. Furthermore, there is no guarantee that the court will require the CPUC to allow utilities to implement a full decoupling water revenue adjustment mechanism.

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,	
	2022	2021	2022	2021
(In millions)				
Operating revenues	\$ 937	\$ 999	\$ 1,779	\$ 1,887
Operating expenses:				
Operation and maintenance	376	431	740	850
Depreciation and amortization	163	158	321	315
General taxes	71	80	145	163
Total operating expenses, net	610	669	1,206	1,328
Operating income	327	330	573	559
Other income (expense):				
Interest expense	(106)	(101)	(206)	(199)
Interest income	12	—	25	—
Non-operating benefit costs, net	20	19	39	39
Other, net	17	3	32	7
Total other (expense) income	(57)	(79)	(110)	(153)
Income before income taxes	270	251	463	406
Provision for income taxes	52	44	87	66
Net income attributable to common shareholders	\$ 218	\$ 207	\$ 376	\$ 340

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 businesses primarily through one reportable segment, the Regulated Businesses segment. "Market-Based Businesses and Other" includes market-based businesses that, individually, do not meet the criteria of a reportable segment in accordance with GAAP, corporate costs that are not allocated to the Company's operating segments, eliminations of inter-segment transactions, and fair value adjustments and associated income and deductions related to 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 Market-Based Businesses and Other as they are excluded from segment performance measures evaluated by management. This presentation is consistent with how management assesses the results of these businesses.

As a result of the sale of HOS, the categories which were previously shown as “Market-Based Businesses” and “Other” have been combined and shown as “Market-Based Businesses and Other.” Segment results for the three and six months ended June 30, 2021 have been adjusted retrospectively to reflect this change.

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,	
	2022	2021	2022	2021
(In millions)				
Operating revenues	\$ 865	\$ 857	\$ 1,643	\$ 1,612
Operation and maintenance	321	325	636	645
Depreciation and amortization	157	151	312	298
General taxes	68	76	136	152
Other income (expenses)	(53)	(49)	(97)	(97)
Income before income taxes	266	257	462	420
Provision for income taxes	47	42	83	70
Net income attributable to common shareholders	<u>\$ 219</u>	<u>\$ 215</u>	<u>\$ 379</u>	<u>\$ 350</u>

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,	
	2022	2021	2022	2021
(In millions)				
Water services:				
Residential	\$ 484	\$ 491	\$ 912	\$ 921
Commercial	174	170	327	314
Fire service	37	37	73	74
Industrial	38	34	74	66
Public and other	63	63	122	116
Total water services	<u>796</u>	<u>795</u>	<u>1,508</u>	<u>1,491</u>
Wastewater services:				
Residential	42	38	83	74
Commercial	11	9	21	18
Industrial	1	1	2	2
Public and other	4	4	7	8
Total wastewater services	<u>58</u>	<u>52</u>	<u>113</u>	<u>102</u>
Other (a)	<u>11</u>	<u>10</u>	<u>22</u>	<u>19</u>
Total operating revenues	<u>\$ 865</u>	<u>\$ 857</u>	<u>\$ 1,643</u>	<u>\$ 1,612</u>

(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,	
	2022	2021	2022	2021
(Gallons in millions)				
Billed water services volumes:				
Residential	38,005	42,897	72,165	79,756
Commercial	18,361	18,680	34,700	34,578
Industrial	9,506	8,374	18,125	16,443
Fire service, public and other	12,448	12,544	24,204	23,407
Total billed water services volumes	78,320	82,495	149,194	154,184

Included in operating revenues for the three months ended June 30, 2021 was \$29 million related to the Company's New York operations. Excluding the Company's New York operations, for the three months ended June 30, 2022, operating revenues increased \$37 million, primarily due to: (i) \$33 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states; (ii) \$7 million increase from water and wastewater acquisitions, as well as organic growth in existing systems; (iii) \$6 million net increase as a result of reduced amortization of EADIT, primarily in the Company's New Jersey subsidiary; and (iv) \$9 million decrease in demand, primarily driven by warmer and drier than normal weather in the second quarter of 2021 in the Northeast.

Included in operating revenues for the six months ended June 30, 2021 was \$52 million related to the Company's New York operations. Excluding the Company's New York operations, for the six months ended June 30, 2022, operating revenues increased \$83 million, primarily due to: (i) \$73 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states; (ii) \$12 million increase from water and wastewater acquisitions, as well as organic growth in existing systems; (iii) \$8 million net increase as a result of reduced amortization of EADIT, primarily in the Company's New Jersey subsidiary; and (iv) \$10 million decrease in demand, primarily driven by warmer and drier than normal weather in the second quarter of 2021 in the Northeast.

Operation and Maintenance

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
(In millions)				
Employee-related costs	\$ 126	\$ 129	\$ 252	\$ 259
Production costs	93	89	177	167
Operating supplies and services	55	58	112	115
Maintenance materials and supplies	20	23	42	47
Customer billing and accounting	14	15	27	32
Other	13	11	26	25
Total	\$ 321	\$ 325	\$ 636	\$ 645

Included in operation and maintenance expense for the three and six months ended June 30, 2021 was \$12 million and \$24 million, respectively, related to the Company's New York operations. Excluding the Company's New York operations, for the three and six months ended June 30, 2022, operation and maintenance expense increased \$8 million and \$15 million, respectively, primarily due to increased fuel, power and chemicals costs.

Depreciation and Amortization

For the three and six months ended June 30, 2022, depreciation and amortization increased \$6 million and \$14 million, respectively, primarily due to additional utility plant placed in service from capital infrastructure investments and acquisitions.

General Taxes

Included in general taxes for the three and six months ended June 30, 2021 was \$12 million and \$24 million, respectively, related to the Company's New York operations. Excluding the Company's New York operations, general taxes increased \$3 million and \$7 million, respectively, primarily due to an increase in the New Jersey Gross Receipts Tax and increased property tax assessments.

Provision for Income Taxes

For the three and six months ended June 30, 2022, the Regulated Businesses' provision for income taxes increased \$5 million and \$13 million, respectively. The Regulated Businesses' effective income tax rate was 19.3% and 17.5% for the three months ended June 30, 2022 and 2021, respectively, and 18.0% and 16.7% for the six months ended June 30, 2022 and 2021, respectively. The Regulated Businesses' effective income tax rate for the three and six months ended June 30, 2022 reflects the amortization of EADIT pursuant to regulatory orders.

Market-Based Businesses and Other

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
(In millions)				
Operating revenues	\$ 72	\$ 142	\$ 136	\$ 275
Operation and maintenance	54	106	104	205
Depreciation and amortization	6	7	9	17
Interest expense	(30)	(29)	(60)	(56)
Interest income	12	—	25	—
Income (loss) before income taxes	4	(6)	1	(14)
Provision (benefit) for income taxes	5	2	4	(4)
Net loss attributable to common shareholders	\$ (1)	\$ (8)	\$ (3)	\$ (10)

Operating Revenues

For the three and six months ended June 30, 2022, operating revenues decreased \$70 million and \$139 million, respectively, due primarily to the sale of HOS. HOS operating revenues for the three and six months ended June 30, 2021 were \$78 million and \$154 million, respectively.

Operation and Maintenance

For the three and six months ended June 30, 2022, operation and maintenance expense decreased \$52 million and \$101 million, respectively, primarily due to the sale of HOS. HOS operation and maintenance expenses for the three and six months ended June 30, 2021, were \$50 million and \$102 million, respectively.

Depreciation and Amortization

For the three and six months ended June 30, 2022, depreciation and amortization decreased \$1 million and \$8 million, respectively, primarily due to the sale of HOS.

Interest Income

For the three and six months ended June 30, 2022, interest income increased \$12 million and \$25 million, respectively, due to interest recognized on the seller note related to the sale of HOS. See Note 5—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements for additional information.

Legislative Updates

During 2022, the Company's regulatory jurisdictions enacted the following legislation that has been approved and is effective as of July 27, 2022:

- Indiana passed Senate Enrolled Act 272, which requires public reporting of a non-jurisdictional utility's asset management programs. Non-jurisdictional utilities are exempt from the jurisdiction of the Indiana Utility Regulatory Commission (the "IURC"). The legislation also creates a water and wastewater research and extension program at a state university to serve as a repository for data collected from utilities. Additionally, the legislation establishes oversight and a receivership program in the IURC for non-jurisdictional utilities with violations that create environmental or human health and safety issues. Legislation was signed by the Governor on March 7, 2022 and became effective on July 1, 2022.
- Indiana passed water and wastewater utility asset financing legislation, Senate Enrolled Act 273, which authorizes the recovery of property tax in Distribution System Improvement Charge filings. The legislation also permits the IURC to allow recovery through tracking mechanisms for changes in property tax and for costs attributable to referenda or action by elected or appointed individuals. Legislation was signed by the Governor on March 10, 2022 and became effective on July 1, 2022.
- Virginia passed Senate Bill 500 and House Bill 182, which requires the Virginia State Corporation Commission, in any future ratemaking proceeding for an investor-owned water/wastewater utility, to evaluate the utility on a stand-alone basis and utilize the utility's actual end-of-test period capital structure and cost of capital without regard to the cost of capital, capital structure, or investments of any other entities with which the utility may be affiliated. Legislation was signed by the Governor on April 11, 2022 and became effective on July 1, 2022.
- Illinois passed House Bill 900/Public Act 102-0698 which contains appropriations to the Department of Commerce and Economic Opportunity of \$3 million for the purposes of the Water and Sewer Finance Assistance Act (H.B. 414/Public Act 102-0262) and \$55 million for the purposes of the federal Low-Income Household Water Assistance Program (LIHWAP). Legislation was signed by the Governor on April 19, 2022 with these provisions of the bill taking effect on July 1, 2022.
- Tennessee passed Senate Bill 2282 and House Bill 2346, which requires all utilities to implement a cyber security plan and update it every two years to provide for the protection of the utility's facilities from unauthorized use, alteration, ransom, or destruction of electronic data. The relevant regulatory body will verify if a utility has complied or impose reasonable sanctions if out of compliance. Utility compliance will be required by July 1, 2023. Legislation was signed by the Governor on June 1, 2022 and became effective immediately.

During 2022, the Company's regulatory jurisdictions enacted the following legislation that has been approved but is not yet effective as of July 27, 2022:

- The Missouri General Assembly passed state and local property tax tracker legislation, Senate Bill 745, which requires a utility to defer to a regulatory asset or liability account any difference in what was actually paid in state or local property taxes and what was used to set the revenue requirement in the utility's most recently completed general rate case. Legislation was signed by the Governor on June 29, 2022 and will become effective on August 28, 2022.

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. In November 2020, the MPWMD certified a final environmental impact report ("FEIR"), analyzing the environmental impacts of the MPWMD's project to (1) acquire the Monterey system assets through the power of eminent domain, if necessary, and (2) expand its geographic boundaries to include all parts of this system. In February 2021, the MPWMD filed an application with the Local Agency Formation Commission of Monterey County ("LAFCO") seeking approval to become a retail water provider and annex approximately 58 parcels of land into the MPWMD's boundaries. In June 2021, LAFCO's commissioners voted to require a third-party independent financial study as to the feasibility of an acquisition by the MPWMD of the Monterey system assets. On December 6, 2021, LAFCO's commissioners denied the MPWMD's application to become a retail water provider, determining that the MPWMD does not have the authority to proceed with a condemnation of the Monterey system assets, and on January 5, 2022, LAFCO's commissioners confirmed the denial. On February 28, 2022, LAFCO's commissioners voted to deny the MPWMD's application for reconsideration of LAFCO's confirmation of denial. On April 1, 2022, the MPWMD filed a lawsuit against LAFCO challenging its decision to deny the MPWMD's application seeking approval to become a retail water provider. On June 17, 2022, the court granted, with conditions, a motion by Cal Am to intervene in the MPWMD's lawsuit against LAFCO.

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 was originally scheduled for October 2021 but has been continued to January 2023.

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.

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 expects to fund future maturities of long-term debt through a combination of external debt and, to the extent available, cash flows from operations. Since the Company expects its capital investments over the next few years to be greater than its cash flows from operating activities, the Company currently plans to fund the excess of its capital investments over its cash flows from operating activities for the next five years through a combination of long-term debt and equity in addition to the proceeds from the sales of HOS and the Company's New York subsidiary. If necessary, the Company may delay certain capital investments or other funding requirements, or pursue financing from other sources to preserve liquidity. In this event, the Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

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. As of June 30, 2022 and December 31, 2021, there were no borrowings outstanding under the revolving credit facility. The weighted-average interest rate on AWCC's outstanding short-term borrowings was approximately 1.67% and 0.20% at June 30, 2022 and December 31, 2021, respectively.

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, 2022		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	\$ 2,100	\$ 150	\$ 2,250
Outstanding debt	(420)	(75)	(495)
Remaining availability as of June 30, 2022	<u>\$ 1,680</u>	<u>\$ 75</u>	<u>\$ 1,755</u>

(a) Total remaining availability of \$1.76 billion as of June 30, 2022 may be accessed through revolver draws.

(In millions)	As of December 31, 2021		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	\$ 2,100	\$ 150	\$ 2,250
Outstanding debt	(584)	(76)	(660)
Remaining availability as of December 31, 2021	<u>\$ 1,516</u>	<u>\$ 74</u>	<u>\$ 1,590</u>

(a) Total remaining availability of \$1.59 billion as of December 31, 2021 may be accessed through revolver draws.

Presented in the table below is the Company's total available liquidity as of June 30, 2022 and December 31, 2021, respectively:

(In millions)	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of June 30, 2022	\$ 71	\$ 1,755	\$ 1,826
Available liquidity as of December 31, 2021	\$ 116	\$ 1,590	\$ 1,706

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

On May 5, 2022, AWCC issued \$800 million aggregate principal amount of its 4.45% senior notes due 2032. At closing, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately \$792 million. AWCC used the net proceeds of the offering: (i) to lend funds to the Company and its subsidiaries in its Regulated Businesses segment; (ii) to repay AWCC's commercial paper obligations; and (iii) for general corporate purposes.

In April 2022, the Company entered into several 10-year treasury lock agreements, with notional amounts totaling \$400 million, and an average fixed interest rate of 2.89%. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In May 2022, the Company terminated the treasury lock agreements, realizing a net gain of approximately \$4 million, to be amortized through interest, net over a 10-year period, in accordance with the tenor of the debt issuance on May 5, 2022. No ineffectiveness was recognized on hedging instruments for the three and six months ended June 30, 2022.

Cash Flows from Operating Activities

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

	For the Six Months Ended June 30,	
	2022	2021
(In millions)		
Net income	\$ 376	\$ 340
Add (less):		
Depreciation and amortization	321	315
Deferred income taxes and amortization of investment tax credits	(33)	64
Other non-cash activities (a)	(17)	(45)
Changes in working capital (b)	(420)	(136)
Pension and non-pension postretirement benefit contributions	(31)	(18)
Net cash provided by operating activities	\$ 196	\$ 520

(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, accrued liabilities, accrued taxes, and other current assets and liabilities, net.

For the six months ended June 30, 2022, cash provided by operating activities decreased \$324 million, primarily due to changes in working capital and deferred taxes. The changes were driven by \$280 million of estimated tax payments for taxable gains on the sales of the Company's HOS business and its New York regulated operations, as well as the contribution of \$45 million to the American Water Charitable Foundation.

Cash Flows from 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,	
	2022	2021
(In millions)		
Net capital expenditures	\$ (995)	\$ (752)
Acquisitions	(240)	(39)
Net proceeds from sale of assets	608	—
Other investing activities, net (a)	(49)	(43)
Net cash used in investing activities	\$ (676)	\$ (834)

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

For the six months ended June 30, 2022, cash used in investing activities decreased \$158 million, primarily due to proceeds of \$608 million received from the sale of the Company's New York operations offset by increased payments for capital expenditures and acquisitions. The Company plans to invest approximately \$2.5 billion across its footprint in 2022.

Cash Flows from Financing Activities

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

(In millions)	For the Six Months Ended June 30,	
	2022	2021
Proceeds from long-term debt	\$ 811	\$ 1,102
Repayments of long-term debt	(7)	(364)
Repayments of term loan	—	(500)
Net short-term (repayments) borrowings with maturities less than three months	(164)	(176)
Debt issuance costs and make-whole premium on early debt redemption	(7)	(26)
Dividends paid	(228)	(209)
Other financing activities, net (a)	36	15
Net cash provided by (used in) financing activities	<u>\$ 441</u>	<u>\$ (158)</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, 2022, cash provided by financing activities increased \$599 million, primarily due to the repayment in full at maturity of the \$500 million term loan during the first quarter of 2021 and 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. These changes were partially offset by lower proceeds from long-term debt.

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, 2022, the Company's ratio was 0.61 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 July 27, 2022 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 mortgage bonds and tax-exempt securities or borrowings under state revolving funds, to lower the overall cost of debt.

Dividends

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

Application of Critical Accounting Policies and Estimates

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

Recent Accounting Standards

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk in the normal course of business, including changes in commodity prices, equity prices and interest rates. For further discussion of its exposure to market risk, see Part II, Item 7A—Quantitative and Qualitative Disclosures about Market Risk in the Company's Form 10-K. There have been no significant changes to the Company's exposure to market risk since December 31, 2021.

The Company had no derivative instruments, which are exposed to market risk, outstanding as of June 30, 2022.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2022.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of June 30, 2022, 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, 2022, 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, 2022 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. In accordance with the SEC's disclosure rules, the Company has elected to disclose environmental proceedings involving the Company and a governmental authority if the amount of potential monetary sanctions, exclusive of interest and costs, that the Company reasonably believes will result from such proceeding is \$1 million or more.

Dunbar, West Virginia Water Main Break Class Action Litigation

On July 5, 2022, the Circuit Court entered an order certifying again a class to address at trial certain liability issues but not to consider damages. WVAVC is considering whether to challenge the Circuit Court's latest certification order.

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, 2022. From April 1, 2015, the date repurchases under the anti-dilutive stock repurchase program commenced, through June 30, 2022, the Company repurchased an aggregate of 4,860,000 shares of common stock under the program, leaving an aggregate of 5,140,000 shares available for repurchase under this program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, File No. 001-34028, filed December 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 5, 2022, establishing the terms and authorizing the issuance of the 4.450% Senior Notes due 2032 (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 5, 2022).
*10.1	Offer Letter for Employment, dated April 27, 2022, between American Water Works Company, Inc. and John C. Griffith.
*10.2	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2022 Stock Unit Grant Form for Non-Employee Directors.
*22.1	Guaranteed Securities.
*31.1	Certification of M. Susan Hardwick, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	Certification of John C. Griffith, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.
**32.1	Certification of M. Susan Hardwick, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
**32.2	Certification of John C. Griffith, Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 27th day of July, 2022.

	AMERICAN WATER WORKS COMPANY, INC.
	(REGISTRANT)
By	<u>/s/ M. SUSAN HARDWICK</u>
	M. Susan Hardwick President and Chief Executive Officer (Principal Executive Officer)
By	<u>/s/ JOHN C. GRIFFITH</u>
	John C. Griffith Executive Vice President and Chief Financial Officer (Principal Financial Officer)
By	<u>/s/ MELISSA K. WIKLE</u>
	Melissa K. Wikle Chief Accounting Officer (Principal Accounting Officer)



April 27, 2022

John C. Griffith
41 Whittredge Road
Summit, NJ 07901

Dear John:

On behalf of American Water Works Service Company, Inc., I am pleased to offer you the full-time position of Executive Vice President, Chief Financial Officer, reporting to M. Susan Hardwick, President and CEO, at our Camden, New Jersey headquarters office. The anticipated start date of your new position will be Monday, May 16, 2022. We are confident that you will find this new role to be personally rewarding and one in which you can make significant contributions to the company. ***The terms of this offer letter are subject to the recommendation of the Executive Development & Compensation Committee and the approval of the American Water Board of Directors.***

Safety, trust, teamwork, high performance, and environmental leadership define our culture – a culture where every employee feels valued and lives up to his or her potential. Creating an environment where differences are embraced and where every person feels engaged and included makes us safer, stronger, and more successful. We believe that our success is based upon our employees having a vested interest in our business. As a part of our team, you will be tasked with helping make a great company even better – in doing so, you will be rewarded for your contributions. The following is our offer to you:

Base Salary: Your annual salary will be approximately \$725,000.00, which will be paid on a bi-weekly basis in accordance with American Water's standard payroll practices. The salary level for your position is 95. Your job performance will be reviewed annually as part of our performance management process, and you may be eligible for a merit increase in 2023.

APP: You are eligible to participate in American Water's Annual Performance Plan with a target award amount equal to 100% of your annual base salary. For 2022 you will be eligible for a pro-rated APP payout based on your date of hire. Awards from the Annual Performance Plan are based on several factors including company performance and attainment of individual performance objectives, and payments may be higher or lower than target.

LTPP: You are eligible to participate in the American Water Long Term Performance Plan (LTPP) and will receive a target opportunity with a fair value equal to 250% of your base salary as of grant date. Your 2022 LTPP grant will be issued and valued as of your date of hire, subject to approval of the Executive Development & Compensation Committee. This grant will reflect a full view grant, and as such, will not be prorated to reflect your start date of May 16, 2022. For reference purposes, awards are currently granted under the terms and conditions of the Company's 2017 Omnibus Equity Compensation Plan (the "Plan") and related grant documents, in the form of restricted stock units and performance stock units, as follows: 30% Restricted Stock Units, 35% performance stock units based on TSR ranking and 35% performance stock units based on an internal measure determined by the Committee. In the event of any conflict between your offer letter and the terms of the award grant documents and the Plan, the terms of the award documents and the Plan will govern. Please note that all employees in salary levels 70 and above are subject to the Company's Executive Stock Ownership Guidelines and Stock Retention Requirements, and you will be required to hold Company stock with a value of 3 times your base salary by May 16, 2027.

In addition, for so long as you remain CFO, equity awards granted to you on and after the date of this offer letter would include specific post-retirement continued vesting provisions applicable to that position. Under these provisions, if you remain CFO for at least three (3) consecutive years (beginning on the date your appointment as EVP and CFO is effective), your equity awards will continue to vest over the normal vesting schedule of the award following a separation of service based upon either normal retirement or early retirement, as follows:

In the event of a normal retirement, defined as having attained age 60 and five years of service, the award will continue to vest in full; and
In the event of an early retirement, defined as having attained age 55 and five years of service, 75 percent of the award will continue to vest.



John C. Griffith
April 27, 2022
Page 2

Benefits: American Water offers a competitive benefits program for you and your eligible dependents. An outline of our benefits is attached for your review. Our benefit plans include medical, prescription drug, dental, vision, flexible spending accounts (Health and Dependent Care), employer paid life/disability insurance, voluntary life insurance, Healthy Solutions incentive based wellness program, employee assistance program and educational assistance. Your enrollment is effective the 1st day of the month after your hire date.

Defined Contribution Plan: You will be eligible to participate in the 401(k) Savings Plan and Defined Contribution plans effective the date of hire. Approximately one week after your hire date, you will receive a letter from Empower advising that you will be automatically enrolled into the plan at a 3% contribution level. If you do not enroll on your own, the automatic enrollment will take place 30 days from the date of the letter. You can stop or change your contribution percentage at any time.

American Water contributes on your behalf an amount equal to 5.25% of your base salary or hourly pay, regardless of whether you chose to make contributions to the 401(k) Plan. Your Defined Contributions will be invested in the same funds as you direct your 401(k) contributions to be invested. If you do not select an investment option, your account balance will be invested in the Vanguard Target Retirement Funds based on when you would attain age 65.

Non-Qualified Deferred Compensation: You will also be eligible to participate in our Non-Qualified Deferred Compensation Plan beginning in 2023, based on annual enrollment in December. The Company may make Employer Matching and Defined Contribution Account contributions as soon as administratively practicable after the end of the applicable plan year. Under the Non-Qualified Deferred Compensation Plan, Employer Matching contributions are immediately vested; Defined Contribution Account contributions will generally vest after five years of service.

Additional Considerations: You will receive a sign-on bonus of \$950,000, within the first 30 days of your continuous employment, subject to applicable withholdings. This bonus is subject to repayment in full if you voluntarily leave the company prior to one year of service.

Relocation: You will be eligible for relocation benefits under American Water's relocation policy according to the parameters of our policy and eligibility criteria as set forth by the IRS. You will be required to sign a Relocation Services Payback Agreement stating that if an employee resigns within 24 months of the effective date of their relocation, they are required to reimburse the relocation expenses to the Company on a pro-rated basis. The terms are confidential between you and American Water. You have elected to receive in cash the lump sum value of the relocation plan in lieu of the services, which has a value of \$120,000. That payment will be made to you within 30 days of your start date and is subject to all applicable withholdings.

Holidays/Vacation: You will be eligible for 25 days of paid vacation, 6 floating holidays and 8 fixed holidays per calendar year. Your time will be pro-rated for 2022.

Sick Days: You are eligible for 10 sick days annually. For the balance of 2022, you will be eligible for 10 sick days.

Executive Severance Policy: You will be an eligible participant under the executive severance policy which provides severance benefits to certain executives whose employment is involuntarily terminated by American Water for reasons other than cause, and other than in connection with a change of control. A copy of the Executive Severance policy has been provided with this offer.



Mr. John Griffith
April 27, 2022
Page 3

Change of Control Severance Policy: You will be an eligible participant under the Change of Control Severance Policy which provides severance benefits to certain executives whose employment is involuntarily terminated for reasons other than cause or if the executive resigns from employment for Good Reason (as defined therein), and such termination occurs within a period beginning on the date a Change of Control is completed and ending 24 months thereafter.

This offer is contingent upon the successful completion and results of both a background check and a drug screen as well as approvals by the Committee and the American Water Board of Directors. You will be receiving an email from our vendor, CareerBuilder, on behalf of American Water Careers, asking you to complete information for the background check and drug screen. Please complete this information as quickly as possible, and report for your drug screening within 48 hours.

Additionally, as part of our new hire process, you will be asked to complete a Form 1-9 in compliance with the Immigration Reform and Control Act after the offer acceptance or no later than the first date of hire. Please refer to this link-Click Here and follow the instructions. If you experience technical difficulty with this link, please contact your Recruiter.

Your signature below indicates your acceptance of our offer and the terms of employment with American Water. Please review all attachments and sign and return the Confidentiality and Intellectual Property Agreements with your offer letter.

As you will be a Section 16 officer of the Company, American Water may be required to disclose your compensation and/or this offer letter in an SEC filing. Your signature below indicates your acknowledgment of this requirement of your position.

Your signature below indicates your acceptance of our offer and the terms of employment with American Water. Please review, sign and return a copy of this promotion letter.

John, we wish you the best of luck in your new role and future opportunities with American Water!

Sincerely,

M. Susan Hardwick
President, CEO and CFO
American Water

cc: Melanie Kennedy, Executive Vice President, Chief Human Resources Officer

I, John Griffith, understand that my employment with American Water is "at will," which means that I am not guaranteed employment or any particular job for any specified period of time. The Company or I may terminate my employment at any time, for any or no reason, with or without cause.

_____/s/ JOHN C. GRIFFITH

Signature

April 26, 2022

Date

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

This STOCK UNIT GRANT, dated as of May 11, 2022 (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 2022 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 11, 2023 (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: M. Susan Hardwick

A handwritten signature in black ink, appearing to read "M. Susan Hardwick", written in a cursive style.

Its: President, CEO and CFO

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 11, 2022, (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 11, 2023	

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: _____

AMERICAN WATER WORKS COMPANY, INC.**List of Securities Registered Under the Securities Act of 1933 (the “Securities Act”) and Entitled to the Benefit of the Support Agreement between American Water Capital Corp. (“AWCC”) and American Water Works Company, Inc. (“parent company”)**

The following securities have been issued by AWCC and registered under the Securities Act, and have the benefit of that certain Support Agreement, as amended, by and between AWCC and parent company, which serves as the functional equivalent of a full and unconditional guarantee by parent company of the payment obligations of AWCC thereunder:

3.850% Senior Notes due 2024
3.400% Senior Notes due 2025
3.000% Senior Notes due 2026
2.950% Senior Notes due 2027
3.750% Senior Notes due 2028
3.450% Senior Notes due 2029
2.800% Senior Notes due 2030
2.300% Senior Notes due 2031
4.450% Senior Notes due 2032
6.593% Senior Notes due 2037
4.300% Senior Notes due 2042
4.300% Senior Notes due 2045
4.000% Senior Notes due 2046
3.750% Senior Notes due 2047
4.200% Senior Notes due 2048
4.150% Senior Notes due 2049
3.450% Senior Notes due 2050
3.250% Senior Notes due 2051

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

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

I, M. Susan Hardwick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2022

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick
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, John C. Griffith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2022

By: /s/ JOHN C. GRIFFITH

John C. Griffith

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

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

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Susan Hardwick, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick
President and Chief Executive Officer
(Principal Executive Officer)
July 27, 2022

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

In connection with the quarterly report of American Water Works Company, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John C. Griffith, Executive Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ JOHN C. GRIFFITH

John C. Griffith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
July 27, 2022