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 March 31, 2024

OR

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

For the transition period from ______ to ______

Commission file number: 001-34028

AMERICAN WATER WORKS COMPANY, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

Class	Shares Outstanding as of April 22, 2024
Common Stock, par value $0.01 per share	**194,822,567**

TABLE OF CONTENTS

* * *

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

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

FORWARD-LOOKING STATEMENTS

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

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

- the decisions of governmental and regulatory bodies, including decisions to raise or lower customer rates;

- the timeliness and outcome of regulatory commissions’ and other authorities’ actions concerning rates, capital structure, authorized return on equity, capital investment, system acquisitions and dispositions, taxes, permitting, water supply and management, and other decisions;
- changes in customer demand for, and patterns of use of, water and energy, such as may result from conservation efforts, or otherwise;
- limitations on the availability of the Company’s water supplies or sources of water, or restrictions on its use thereof, resulting from allocation rights, governmental or regulatory requirements and restrictions, drought, overuse or other factors;
- a loss of one or more large industrial or commercial customers due to adverse economic conditions or other factors;
- present and future proposed changes in laws, governmental regulations and policies, including with respect to the environment (such as, for example, potential improvements to existing Federal regulations with respect to lead and copper service lines and galvanized steel pipe), health and safety, data and consumer privacy, security and protection, water quality and water quality accountability, contaminants of emerging concern (including without limitation per- and polyfluoroalkyl substances (“PFAS”)), public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections and changes in federal, state and local executive administrations;
- the Company’s ability to collect, distribute, use, secure and store consumer data in compliance with current or future governmental laws, regulations and policies with respect to data and consumer privacy, security and protection;
- weather conditions and events, climate variability patterns, and natural disasters, including drought or abnormally high rainfall, prolonged and abnormal ice or freezing conditions, strong winds, coastal and intercoastal flooding, pandemics (including COVID-19) and epidemics, earthquakes, landslides, hurricanes, tornadoes, wildfires, electrical storms, sinkholes and solar flares;
- the outcome of litigation and similar governmental and regulatory proceedings, investigations or actions;

- the risks associated with the Company’s aging infrastructure, and its ability to appropriately improve the resiliency of or maintain, update, redesign and/or replace, current or future infrastructure and systems, including its technology and other assets, and manage the expansion of its businesses;
- exposure or infiltration of the Company’s technology and critical infrastructure systems, including the disclosure of sensitive, personal or confidential information contained therein, through physical or cyber attacks or other means, and impacts from required or voluntary public and other disclosures related thereto;
- the Company’s ability to obtain permits and other approvals for projects and construction, update, redesign and/or replacement of various water and wastewater facilities;
- changes in the Company’s capital requirements;
- the Company’s ability to control operating expenses and to achieve operating efficiencies, and the Company’s ability to create, maintain and promote initiatives and programs that support the affordability of the Company’s regulated utility services;
- the intentional or unintentional actions of a third party, including contamination of the Company’s water supplies or the water provided to its customers;
- the Company’s ability to obtain and have delivered adequate and cost-effective supplies of pipe, equipment (including personal protective equipment), chemicals, power and other fuel, water and other raw materials, and to address or mitigate supply chain constraints that may result in delays or shortages in, as well as increased costs of, supplies, products and materials that are critical to or used in the Company’s business operations;
- the Company’s ability to successfully meet its operational growth projections, either individually or in the aggregate, and capitalize on growth opportunities, including, among other things, with respect to:
  - acquiring, closing and successfully integrating regulated operations, including without limitation the Company’s ability to (i) obtain required regulatory approvals for such acquisitions, (ii) prevail in litigation or other challenges related to such acquisitions, and (iii) recover in rates the fair value of assets of the acquired regulated operations;
  - the Company’s Military Services Group (“MSG”) entering into new military installation contracts, price redeterminations, and other agreements and contracts with the U.S. government; and
  - realizing anticipated benefits and synergies from new acquisitions;
- risks and uncertainties following the completion of the sale of the Company’s Homeowner Services Group (“HOS”), including:
  - the Company’s ability to receive amounts due, payable and owing to the Company under the amended secured seller note when due; and
  - the ability of the Company to redeploy successfully and timely the net proceeds of this transaction into the Company’s Regulated Businesses;
- risks and uncertainties associated with contracting with the U.S. government, including ongoing compliance with applicable government procurement and security regulations;

- cost overruns relating to improvements in or the expansion of the Company's operations;
- the Company's ability to successfully develop and implement new technologies and to protect related intellectual property;
- the Company's ability to maintain safe work sites;
- the Company's exposure to liabilities related to environmental laws and regulations, including those enacted or adopted and under consideration, and the substances related thereto, including without limitation lead and galvanized steel, PFAS and other contaminants of emerging concern, and similar matters resulting from, among other things, water and wastewater service provided to customers;
- the ability of energy providers, state governments and other third parties to achieve or fulfill their GHG emission reduction goals, including without limitation through stated renewable portfolio standards and carbon transition plans;
- changes in general economic, political, business and financial market conditions;
- access to sufficient debt and/or equity capital on satisfactory terms and as needed to support operations and capital expenditures;
- fluctuations in inflation or interest rates, and the Company's ability to address or mitigate the impacts thereof;
- the ability to comply with affirmative or negative covenants in the current or future indebtedness of the Company or any of its subsidiaries, or the issuance of new or modified credit ratings or outlooks by credit rating agencies with respect to the Company or any of its subsidiaries (or any current or future indebtedness thereof), which could increase financing costs or funding requirements and affect the Company's or its subsidiaries' ability to issue, repay or redeem debt, pay dividends or make distributions;

- fluctuations in the value of, or assumptions and estimates related to, its benefit plan assets and liabilities, including with respect to its pension and other post-retirement benefit plans, that could increase expenses and plan funding requirements;
- changes in federal or state general, income and other tax laws, including (i) future significant tax legislation or regulations (including without limitation impacts related to the Corporate Alternative Minimum Tax), and (ii) the availability of, or the Company’s compliance with, the terms of applicable tax credits and tax abatement programs;
- migration of customers into or out of the Company’s service territories and changes in water and energy consumption resulting therefrom;
- the use by municipalities of the power of eminent domain or other authority to condemn the systems of one or more of the Company’s utility subsidiaries, including without limitation litigation and other proceedings with respect to the water system assets of the Company’s California subsidiary (“Cal Am”) located in Monterey, California (the “Monterey system assets”), or the assertion by private landowners of similar rights against such utility subsidiaries;
- any difficulty or inability to obtain insurance for the Company, its inability to obtain insurance at acceptable rates and on acceptable terms and conditions, or its inability to obtain reimbursement under existing or future insurance programs and coverages for any losses sustained;
- the incurrence of impairment charges, changes in fair value and other adjustments related to the Company’s goodwill or the value of its other assets;
- labor actions, including work stoppages and strikes;
- the Company’s ability to retain and attract highly qualified and skilled employees and/or diverse talent;
- civil disturbances or unrest, or terrorist threats or acts, or public apprehension about future disturbances, unrest, or terrorist threats or acts; and
- the impact of new, and changes to existing, accounting standards.

These forward-looking statements are qualified by, and should be read together with, the risks and uncertainties set forth above, and the risk factors and other statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023 (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)

	March 31, 2024	December 31, 2023
ASSETS		
Property, plant and equipment	$ 32,780	$ 32,189
Accumulated depreciation	(6,757)	(6,751)
Property, plant and equipment, net	26,023	25,438
Current assets:		
Cash and cash equivalents	584	330
Restricted funds	42	34
Accounts receivable, net of allowance for uncollectible accounts of $49 and $51, respectively	323	339
Income tax receivable	26	86
Unbilled revenues	316	302
Materials and supplies	115	112
Other	181	186
Total current assets	1,587	1,389
Regulatory and other long-term assets:		
Regulatory assets	1,117	1,106
Secured seller promissory note from the sale of the Homeowner Services Group	795	720
Operating lease right-of-use assets	90	86
Goodwill	1,143	1,143
Other	331	416
Total regulatory and other long-term assets	3,476	3,471
Total assets	$ 31,086	$ 30,298

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)

	March 31, 2024	December 31, 2023
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock ($0.01 par value; 500,000,000 shares authorized; 200,273,523 and 200,144,968 shares issued, respectively)	$ 2	$ 2
Paid-in-capital	8,561	8,550
Retained earnings	1,844	1,659
Accumulated other comprehensive loss	(8)	(26)
Treasury stock, at cost (5,451,187 and 5,414,867 shares, respectively)	(392)	(388)
Total common shareholders' equity	10,007	9,797
Long-term debt	12,566	11,715
Redeemable preferred stock at redemption value	3	3
Total long-term debt	12,569	11,718
Total capitalization	22,576	21,515
Current liabilities:		
Short-term debt	—	179
Current portion of long-term debt	557	475
Accounts payable	231	294
Accrued liabilities	636	791
Accrued taxes	89	67
Accrued interest	131	93
Other	213	252
Total current liabilities	1,857	2,151
Regulatory and other long-term liabilities:		
Advances for construction	367	352
Deferred income taxes and investment tax credits	2,742	2,717
Regulatory liabilities	1,460	1,481
Operating lease liabilities	78	73
Accrued pension expense	256	262
Other	195	196
Total regulatory and other long-term liabilities	5,098	5,081
Contributions in aid of construction	1,555	1,551
Commitments and contingencies (See Note 11)		
Total capitalization and liabilities	$ 31,086	$ 30,298

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 March 31,	
	2024	2023
Operating revenues	$ 1,011	$ 938
Operating expenses:		
Operation and maintenance	416	393
Depreciation and amortization	188	172
General taxes	81	78
Total operating expenses, net	685	643
Operating income	326	295
Other (expense) income:		
Interest expense	(124)	(115)
Interest income	24	14
Non-operating benefit costs, net	9	9
Other, net	7	11
Total other (expense) income	(84)	(81)
Income before income taxes	242	214
Provision for income taxes	57	44
Net income attributable to common shareholders	$ 185	$ 170
Basic earnings per share:		
Net income attributable to common shareholders	$ 0.95	$ 0.91
Diluted earnings per share:		
Net income attributable to common shareholders	$ 0.95	$ 0.91
Weighted-average common shares outstanding:		
Basic	195	186
Diluted	195	186

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 March 31,	
	2024	2023
Net income attributable to common shareholders	$ 185	$ 170
Other comprehensive income, net of tax:		
Unrealized gain (loss) on cash flow hedges, net of tax of $3 and $0 for the three months ended March 31, 2024 and 2023, respectively	19	(2)
Unrealized (loss) gain on available-for-sale fixed-income securities, net of tax of $1 and $0 for the three months ended March 31, 2024 and 2023, respectively	(1)	2
Net other comprehensive income	18	—
Comprehensive income attributable to common shareholders	$ 203	$ 170

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 Three Months Ended March 31,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 185	$ 170
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	188	172
Deferred income taxes and amortization of investment tax credits	8	26
Provision for losses on accounts receivable	5	3
Pension and non-pension postretirement benefits	—	1
Other non-cash, net	4	(36)
Changes in assets and liabilities:		
Receivables and unbilled revenues	(2)	(1)
Income tax receivable	60	18
Pension contributions	(11)	(10)
Accounts payable and accrued liabilities	(61)	(60)
Accrued taxes	24	44
Other assets and liabilities, net	(18)	(42)
Net cash provided by operating activities	382	285
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(609)	(526)
Acquisitions, net of cash acquired	(86)	(4)
Removal costs from property, plant and equipment retirements, net	(38)	(31)
Net cash used in investing activities	(733)	(561)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt, net of discount	1,391	8
Repayments of long-term debt	(449)	(4)
Net proceeds from common stock financing	—	1,688
Net short-term repayments with maturities less than three months	(179)	(1,175)
Advances and contributions in aid of construction, net of refunds of $9 and $7 for the three months ended March 31, 2024 and 2023, respectively	3	10
Debt issuance costs	(14)	—
Dividends paid	(138)	(119)
Other, net	(1)	(7)
Net cash provided by financing activities	613	401
Net increase in cash, cash equivalents and restricted funds	262	125
Cash, cash equivalents and restricted funds at beginning of period	364	117
Cash, cash equivalents and restricted funds at end of period	$ 626	$ 242
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid as of the end of period	$ 422	$ 338

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					Treasury Stock		
	Shares	Par Value	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	At Cost	Total Shareholders' Equity
Balance as of December 31, 2023	200.1	$ 2	$ 8,550	$ 1,659	$ (26)	(5.5)	$(388)	$ 9,797
Net income attributable to common shareholders	—	—	—	185	—	—	—	185
Common stock issuances (a)	0.2	—	11	—	—	—	(4)	7
Net other comprehensive income	—	—	—	—	18	—	—	18
Balance as of March 31, 2024	200.3	$ 2	$ 8,561	$ 1,844	$ (8)	(5.5)	$(392)	$ 10,007

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

	Common Stock					Treasury Stock		
	Shares	Par Value	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Shares	At Cost	Total Shareholders' Equity
Balance as of December 31, 2022	187.4	$ 2	$ 6,824	$ 1,267	$ (23)	(5.4)	$(377)	$ 7,693
Net income attributable to common shareholders	—	—	—	170	—	—	—	170
Common stock issuances (a)	12.7	—	1,695	—	—	—	(11)	1,684
Balance as of March 31, 2023	200.1	$ 2	$ 8,519	$ 1,437	$ (23)	(5.4)	$(388)	$ 9,547

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

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

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

Note 1: Basis of Presentation

The unaudited Consolidated Financial Statements included in this report include the accounts of American Water Works Company, Inc. and all of its subsidiaries (the “Company” or “American Water”), in which a controlling interest is maintained after the elimination of intercompany balances and transactions. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial reporting, and the rules and regulations for reporting on Quarterly Reports on Form 10-Q (“Form 10-Q”). Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position as of March 31, 2024, 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, 2023 (“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 recently issued accounting standards that have not yet been adopted by the Company as of March 31, 2024:

Standard	Description	Date of Adoption	Application	Effect on the Consolidated Financial Statements
Segment Reporting	The guidance in this standard expands reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. Additionally, the guidance enhances interim disclosure requirements, clarifies circumstances in which an entity can disclose multiple segment measures of profit and loss, provides new segment disclosure requirements for entities with a single reportable segment, and other disclosure requirements.	Fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024	Retrospective	The Company is evaluating the impact on its Consolidated Financial Statements.
Income Taxes	The guidance in this standard requires disclosure of a tax rate reconciliation table, in both percentages and reporting currency amounts, which includes additional categories of information about federal, state, and foreign income taxes and provides further details about reconciling items in certain categories that meet a quantitative threshold. The guidance also requires an annual disclosure of income taxes paid, net of refunds, disaggregated by federal, state, and foreign taxes paid, and further disaggregated by jurisdiction based on a quantitative threshold. The standard includes other disclosure requirements and eliminates certain existing disclosure requirements.	January 1, 2025	Prospective, with retrospective application also permitted	The Company is evaluating the impact on its Consolidated Financial Statements and the timing of adoption.

Property, Plant and Equipment

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

In the first quarters of 2024 and 2023, the NJEDA issued the utilization certificates for the 2021 and 2020 tax credits, respectively, to the Company in the amount of $16 million each. The Company sold these tax credits to an external party for $15 million each. As of March 31, 2024, the Company had assets of $15 million in other current assets and $90 million in other long-term assets on the Consolidated Balance Sheets for the 2022 through 2028 tax credits. As of December 31, 2023, the Company had assets of $32 million in other current assets and $90 million in other long-term assets on the Consolidated Balance Sheets for the 2021 through 2028 tax credits. The Company has made the necessary annual filing for the year ended December 31, 2022, and expects to make the 2023 filing in the second quarter of 2024, prior to the required filing deadline. The submitted filing, for the 2022 tax credits, is under review by the NJEDA and it is expected that the Company will receive final NJEDA approval and monetize these credits in 2024.

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 three months ended March 31:

	2024	2023
Balance as of January 1	$ (51)	$ (60)
Amounts charged to expense	(5)	(3)
Amounts written off	8	5
Other, net (a)	(1)	3
Balance as of March 31	$ (49)	$ (55)

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

Reclassifications

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

Note 3: Regulatory Matters

General Rate Cases

Presented in the table below are annualized incremental revenues, including reductions for the amortization of the excess accumulated deferred income taxes ("EADIT") that are generally offset in income tax expense, assuming a constant sales volume and customer count, resulting from general rate case authorizations that became effective during 2024:

	Effective Date	Amount
General rate cases by state:		
West Virginia	February 25, 2024	$ 18
Indiana, Step Increase	February 21, 2024	25
Total general rate case authorizations		$ 43

On March 4, 2024, the West Virginia Public Service Commission issued an order approving the adjustment of base rates requested in a rate case filed on May 1, 2023, by the Company's West Virginia subsidiary. The general rate case order approved an $18 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $7 million, based on an authorized return on equity of 9.8%, authorized rate base of $886 million, which reflects capital investments through February 2024, a common equity ratio of 50.1% and a long-term debt ratio of 49.9%. The increased water and wastewater revenues related to the base rate adjustment are being driven primarily by (i) $220 million of related water and wastewater system capital investments made since the completion of the West Virginia subsidiary's previous rate case, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

On February 14, 2024, the Indiana Utility Regulatory Commission issued an order approving the adjustment of base rates requested in a rate case filed on March 31, 2023, by the Company's Indiana subsidiary. The general rate case order approved a $66 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges, based on an authorized return on equity of 9.65%, authorized rate base of $1.84 billion, a common equity ratio of 56.15% and a debt ratio of 43.85%. For purposes of determining rates, the adjustment is based on an equity component of 48.19% due to the regulatory practice in Indiana of including certain zero-cost items or tax credit balances in the capital structure calculation. The annualized revenue increase will include three step increases, with $25 million of the increase to be included in rates in February 2024, $17 million in May 2024, and $24 million in May 2025. The increases are being driven primarily by (i) over $875 million of water and wastewater system capital investments since the completion of the Indiana subsidiary's last rate case and through April 30, 2025, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

Pending General Rate Case Filings

On May 1, 2024, the Company’s Iowa subsidiary filed a general rate case requesting approximately $21 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 52.57% and debt component of 47.43%. The requested annualized revenue increase is driven primarily by approximately $157 million in capital investments made and to be made by the Iowa subsidiary through March 2026.

On May 1, 2024, the Company’s Tennessee subsidiary filed a general rate case requesting approximately $14 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 54.52% and debt component of 45.48%. The requested annualized revenue increase is driven primarily by approximately $173 million in capital investments made and to be made by the Tennessee subsidiary through December 2025.

On January 25, 2024, the Company’s Illinois subsidiary filed tariffs for new water and wastewater rates. The request seeks a two-step rate increase consisting of aggregate annualized incremental revenue, based on a proposed return on equity of 10.75%, of (i) approximately $132 million, excluding infrastructure surcharges of $5 million, effective January 1, 2025, based on a future test year through December 31, 2025, with average rate base and a capital structure with an equity component of 52.27% and a debt component of 47.73%, and (ii) approximately $16 million effective January 1, 2026, based on a future test year to include end of period rate base and a capital structure with an equity component of 54.43% and a debt component of 45.57%. The requested increases are driven primarily by an estimated $557 million in capital investments to be made by the Illinois subsidiary from January 2024 through December 2025. The request also proposes a treatment and compliance rider to address recovery of future environmental compliance investments, and a modification to the existing volume balancing account mechanism to include full production cost recovery.

On January 19, 2024, the Company’s New Jersey subsidiary filed a general rate case requesting approximately $162 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 56.30% and a debt component of 43.70%. The requested annualized revenue increase is driven primarily by approximately $1.3 billion in capital investments made and to be made by the New Jersey subsidiary through December 2024. The request also proposes a revenue decoupling mechanism and seeks a deferral of certain production cost adjustments.

On December 15, 2023, the Company’s California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2025. On February 2, 2024, the California Public Utilities Commission (“CPUC”) granted the request for a one year extension of the cost of capital filing to May 1, 2025, to set its authorized cost of capital beginning January 1, 2026.

On November 8, 2023, the Company’s Pennsylvania subsidiary filed a general rate case requesting approximately $204 million in additional annualized revenues, excluding projected infrastructure surcharges of $20 million. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 55.30% and a debt component of 44.70%. The requested annualized incremental revenue increase is driven primarily by an estimated $1.0 billion of incremental capital investments to be made through mid-2025. The request also proposes a mechanism to address compliance with evolving environmental requirements, such as emerging federal regulations for lead and per- and polyfluoroalkyl substances. If approved, the new rates would be expected to take effect on August 7, 2024.

On November 1, 2023, the Company’s Virginia subsidiary filed a general rate case requesting $20 million in additional annualized revenues. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 45.67% and a debt and other component of 54.33%. The requested increase is driven by approximately $110 million in capital investments between May 2023 and April 2025. The request also proposed a revenue decoupling mechanism and seeks deferral of certain production cost adjustments. Interim rates became effective May 1, 2024, with the difference between interim and final approved rates subject to refund.

On June 30, 2023, the Company’s Kentucky subsidiary filed a general rate case requesting $26 million in additional annualized revenues, excluding infrastructure surcharges of $10 million. Proposed rates were effective on an interim basis on February 6, 2024, and the difference between the interim and final approved rates is subject to refund. The request is based on a proposed return on common equity of 10.75% and a proposed capital structure with a common equity component of 52.45%. An order is expected in the general rate case in May of 2024.

On July 1, 2022, the Company's California subsidiary filed a general rate case requesting an increase in 2024 revenue of $56 million and a total increase in revenue over the 2024 to 2026 period of $95 million, all as compared to 2022 revenues. The Company updated its filing in January 2023 to capture the authorized step increase effective January 1, 2023. The filing was also updated to incorporate a decoupling proposal and a revision to the Company's sales and associated variable expense forecast. The revised filing requested additional annualized revenues for the test year 2024 of $37 million, compared to 2023 revenues. This excludes the proposed step rate and attrition rate increase for 2025 and 2026 of $20 million and $19 million, respectively. The total revenue requirement request for the three-year rate case cycle, incorporating updates to present rate revenues and forecasted demand, is $76 million. On November 17, 2023, the California subsidiary filed with the CPUC a partial settlement agreement reached with the CPUC's Public Advocates Office, which would determine the amount of incremental annualized water and wastewater revenue to be received by the California subsidiary to be $20 million in the 2024 test year, $16 million in the 2025 escalation year, and $15 million in the 2026 attrition year. The partial settlement agreement addresses the California subsidiary's revenue requirement request but does not address rate design or certain other matters, such as the requested inclusion and implementation of a revenue stability mechanism to separate the California subsidiary's revenue and water sales. New rates would be implemented retroactively to January 1, 2024, upon a final decision issued by the CPUC approving the partial settlement agreement and resolving the other issues not addressed by the partial settlement agreement, which is expected to occur in the second half of 2024.

Infrastructure Surcharges

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. Presented in the table below are annualized incremental revenues, assuming a constant sales volume and customer count, resulting from infrastructure surcharge authorizations that became effective during 2024:

	Effective Date	Amount
Infrastructure surcharges by state:		
New Jersey	April 30, 2024	$ 9
Pennsylvania	April 1, 2024	7
Iowa	March 1, 2024	1
West Virginia (a)	March 1, 2024	7
Missouri	January 20, 2024	26
Illinois	January 1, 2024	5
Total infrastructure surcharge authorizations		$ 55

(a) On March 5, 2024, the West Virginia Public Service Commission directed the Company's West Virginia subsidiary to interpret the distribution system improvement charge ("DSIC") Order as having included within the DSIC the three-year amortization of a prior authorized deferral associated with a large treatment plant project. The inclusion of this deferral increased the net incremental revenue by $0.7 million to a total of $6.6 million effective March 1, 2024.

Pending Infrastructure Surcharge Filings

On March 1, 2024, the Company's Missouri subsidiary filed an infrastructure surcharge proceeding requesting $20 million in additional annualized revenues.

Other Regulatory Matters

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

Note 4: Revenue Recognition

Disaggregated Revenues

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

Presented in the table below are operating revenues disaggregated for the three months ended March 31, 2024:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 502	$ 2	$ 504
Commercial	186	1	187
Fire service	41	—	41
Industrial	42	—	42
Public and other	55	1	56
Total water services	826	4	830
Wastewater services:			
Residential	59	—	59
Commercial	16	—	16
Industrial	2	—	2
Public and other	8	—	8
Total wastewater services	85	—	85
Miscellaneous utility charges	9	—	9
Alternative revenue programs	—	2	2
Lease contract revenue	—	2	2
Total Regulated Businesses	920	8	928
Other	83	—	83
Total operating revenues	$ 1,003	$ 8	$ 1,011

(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 March 31, 2023:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 460	$ 1	$ 461
Commercial	170	1	171
Fire service	39	—	39
Industrial	38	—	38
Public and other	56	—	56
Total water services	763	2	765
Wastewater services:			
Residential	54	—	54
Commercial	14	—	14
Industrial	2	—	2
Public and other	6	—	6
Total wastewater services	76	—	76
Miscellaneous utility charges	8	—	8
Alternative revenue programs	—	9	9
Lease contract revenue	—	2	2
Total Regulated Businesses	847	13	860
Other	78	—	78
Total operating revenues	$ 925	$ 13	$ 938

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

Contract Balances

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

Contract assets of $108 million and $95 million are included in unbilled revenues on the Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023, respectively. Contract liabilities of $63 million and $63 million are included in other current liabilities on the Consolidated Balance Sheets as of March 31, 2024 and December 31, 2023, respectively. Revenues recognized for the three months ended March 31, 2024 and 2023, from amounts included in contract liabilities were $21 million and $33 million, respectively.

Remaining Performance Obligations

Remaining performance obligations ("RPOs") represent revenues the Company expects to recognize in the future from contracts that are in progress. The Company enters into agreements for the provision of services to water and wastewater facilities for the U.S. military, municipalities and other customers. As of March 31, 2024, the Company's operation and maintenance ("O&M") and capital improvement contracts in the MSG and the Contract Services Group have RPOs. Contracts with the U.S. government for work on various military installations expire between 2051 and 2073 and have RPOs of $7.2 billion as of March 31, 2024, as measured by estimated remaining contract revenue. Such contracts are subject to customary termination provisions held by the U.S. government, prior to the agreed-upon contract expiration. Contracts with municipalities and commercial customers expire between 2026 and 2038 and have RPOs of $666 million as of March 31, 2024, as measured by estimated remaining contract revenue. Some of the Company's long-term contracts to operate and maintain the federal government's, a municipality's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Note 5: Acquisitions and Divestitures

Regulated Businesses

Closed Acquisitions

On March 11, 2024, the Company's Illinois subsidiary completed the acquisition of a wastewater treatment plant and related assets from Granite City for a cash purchase price of $86 million, which added approximately 26,000 wastewater customers, including 15,500 customers indirectly in surrounding communities. Assets acquired from this acquisition, principally utility plant, totaled $91 million and liabilities assumed totaled $5 million. This 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 pro forma impact of the Company's acquisitions was not material to the Consolidated Statements of Operations for the periods ended March 31, 2024 and 2023.

Pending Acquisitions

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

On October 11, 2022, the Company’s Pennsylvania subsidiary entered into an agreement to acquire the public wastewater collection and treatment system assets (the “System Assets”) from the Butler Area Sewer Authority. On November 9, 2023, the Pennsylvania Public Utility Commission (the “PaPUC”) approved a settlement agreement without modification with respect to the Company’s Pennsylvania subsidiary’s application to acquire the System Assets from the Butler Area Sewer Authority for a purchase price of $230 million, subject to adjustment as provided for in the asset purchase agreement. This system provides wastewater service for approximately 15,000 customer connections. On December 14, 2023, Center Township and Summit Township filed appeals with the Pennsylvania Commonwealth Court seeking to reverse the order entered by the PaPUC approving the sale of the System Assets. On December 29, 2023, the Company’s Pennsylvania subsidiary filed applications with the Commonwealth Court seeking to dismiss the appeals and requesting expedited consideration. By order dated February 1, 2024, the Commonwealth Court deferred deciding the application to dismiss the appeals and directed that the issues raised by the applications to dismiss are to be considered as part of the merits of the appeals and that the disposition of the appeals was to be expedited. Based on the court’s schedule, the Company estimates that the disposition of the appeals could occur as soon as the second quarter of 2024.

Sale of Homeowner Services Group

On December 9, 2021 (the “Closing Date”), the Company sold all of the equity interests in subsidiaries that comprised the Homeowner Services Group (“HOS”) to a wholly owned subsidiary (the “Buyer”) of funds advised by Apax Partners LLP, a global private equity advisory firm, for total consideration of approximately $1.275 billion. The consideration at closing was comprised of $480 million in cash, a secured seller promissory note payable in cash and issued by the Buyer in the principal amount of $720 million, with an interest rate of 7.00% per year, and a contingent cash payment of $75 million payable upon satisfaction of certain conditions on or before December 31, 2023.

On February 2, 2024, the secured seller note was amended to increase the principal amount from $720 million to $795 million, in full satisfaction of the $75 million contingent cash payment payable under the HOS sale agreement. In addition, the interest rate payable on the secured seller note has increased from 7.00% per year to 10.00% per year until maturity. The Company recognized $17 million and $13 million of interest income during the three months ended March 31, 2024 and 2023, respectively, from the secured seller note. The secured seller note requires compliance with affirmative and negative covenants (subject to certain conditions, limitations and exceptions), including a covenant limiting the incurrence by the Buyer and certain affiliates of additional indebtedness in excess of certain thresholds, but does not include any financial maintenance covenants. Certain of these covenants have been amended, including to provide for annual reductions of specified debt incurrence ratios. Furthermore, the amendment to the secured seller note eliminated the conditional right, beginning December 9, 2024, to require a repayment, without premium or penalty, of 100% of the outstanding principal amount in full in cash together with all accrued and unpaid interest and other obligations thereunder. The final maturity date of the secured seller note remains December 9, 2026. The repayment obligations of the Buyer under the seller note are secured by a first priority security interest in certain property of the Buyer and the former HOS subsidiaries, including their cash and securities accounts, as well as a pledge of the equity interests in each of those subsidiaries, subject to certain limitations and exceptions.

The secured seller note may not be prepaid at the Buyer’s election except in certain limited circumstances before the fourth anniversary of the Closing Date. If the Buyer seeks to repay the secured seller note in breach of this non-call provision, an event of default will occur under the secured seller note and the Company may, among other actions, demand repayment in full together with a premium ranging from 105.5% to 107.5% of the outstanding principal amount of the loan and a customary “make-whole” payment.

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 three months ended March 31, 2024 and 2023, respectively:

	Defined Benefit Pension Plans					
	Employee Benefit Plan Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss	Gain (Loss) on Cash Flow Hedges	Gain on Fixed-Income Securities	Accumulated Other Comprehensive Loss
Balance as of December 31, 2023	$ (96)	$ 1	$ 74	$ (9)	$ 4	$ (26)
Other comprehensive income before reclassifications	—	—	—	19	(1)	18
Net other comprehensive income	—	—	—	19	(1)	18
Balance as of March 31, 2024	$ (96)	$ 1	$ 74	$ 10	$ 3	$ (8)
Balance as of December 31, 2022	$ (93)	$ 1	$ 70	$ (1)	$ —	$ (23)
Other comprehensive income before reclassifications	—	—	—	(2)	2	—
Net other comprehensive income	—	—	—	(2)	2	—
Balance as of March 31, 2023	$ (93)	$ 1	$ 70	$ (3)	$ 2	$ (23)

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 expense in the accompanying Consolidated Statements of Operations.

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

Dividends

On March 1, 2024, the Company paid a quarterly cash dividend of $0.7075 per share to shareholders of record as of February 8, 2024.

On May 1, 2024, the Company's Board of Directors declared a quarterly cash dividend payment of $0.7650 per share, payable on June 3, 2024, to shareholders of record as of May 14, 2024. Future dividends, when and as declared at the discretion of the Board of Directors, will be dependent upon future earnings and cash flows, compliance with various regulatory, financial and legal requirements, and other factors. See Note 9—Shareholders' Equity in the Notes to Consolidated Financial Statements in the Company's Form 10-K for additional information regarding the payment of dividends on the Company's common stock.

Note 7: Long-Term Debt

On February 23, 2024, American Water Capital Corp. ("AWCC") completed a $1.4 billion debt offering, which included the sale of $700 million aggregate principal amount of its 5.150% senior notes due 2034 and $700 million aggregate principal amount of its 5.450% senior notes due 2054. At the closing of this offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately $1,381 million. AWCC is using the net proceeds of the offering (1) to lend funds to American Water and the Regulated Businesses; (2) to repay at maturity AWCC's 3.850% Senior Notes due 2024; (3) to repay AWCC's commercial paper obligations; and (4) for general corporate purposes.

During the three months ended March 31, 2024, AWCC and the Company's regulated subsidiaries made sinking fund payments for, or repaid at maturity, $449 million in aggregate principal amount of outstanding long-term debt, with annual interest rates ranging from 0.00% to 7.17%, a weighted average interest rate of 4.16%, and maturity dates ranging from 2024 to 2051.

The Company had entered into 15 treasury lock agreements through February 2024, with notional amounts totaling $825 million. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In February 2024, the Company terminated the treasury lock agreements realizing a pre-tax net gain of $14 million, to be amortized through Interest expense over a 10-year period or 30-year period, in accordance with the tenor of the notes issued on February 23, 2024.

No ineffectiveness was recognized on hedging instruments for the three months ended March 31, 2024 or 2023.

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

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

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

Note 8: Short-Term Debt

Liquidity needs for capital investment, working capital and other financial commitments are generally funded through cash flows from operations, public and private debt offerings, commercial paper markets and, if and to the extent necessary, borrowings under the AWCC revolving credit facility, and, in the future, issuances of equity. AWCC maintains an unsecured revolving credit facility which provides $2.75 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 October 26, 2028. The revolving credit facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support and to provide a sub-limit for the issuance of up to $150 million in letters of credit. Subject to satisfying certain conditions, the credit agreement permits AWCC to increase the maximum commitment under the facility by up to an aggregate of $500 million and to request extensions of its expiration date for up to two one-year periods, as to which one such extension request remains. As of March 31, 2024 and December 31, 2023, there were no borrowings under the revolving credit facility. As of March 31, 2024 and December 31, 2023, there were $75 million of outstanding letters of credit under the revolving credit facility.

At March 31, 2024, there was no outstanding short-term debt as the net proceeds of the debt offering on February 23, 2024, were used to repay the outstanding short-term commercial paper obligations. See Note 7—Long-Term Debt for additional information relating to the debt offering on February 23, 2024.

At December 31, 2023, short-term debt consisting of commercial paper borrowings totaled $180 million, or net of discount $179 million. The weighted-average interest rate on AWCC's outstanding short-term borrowings was approximately 5.51% and there were no commercial paper borrowings outstanding with maturities greater than three months.

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

	As of March 31, 2024		
	Commercial Paper Limit	**Letters of Credit**	**Total (a)**
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	—	(75)	(75)
Remaining availability as of March 31, 2024	$ 2,600	$ 75	$ 2,675

(a) Total remaining availability of $2.68 billion as of March 31, 2024, was accessible through revolver draws.

	As of December 31, 2023		
	Commercial Paper Limit	Letters of Credit	Total (a)
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(180)	(75)	(255)
Remaining availability as of December 31, 2023	$ 2,420	$ 75	$ 2,495

(a) Total remaining availability of $2.50 billion as of December 31, 2023, was accessible through revolver draws.

Presented in the table below is the Company's total available liquidity as of March 31, 2024 and December 31, 2023, respectively:

	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of March 31, 2024	$ 584	$ 2,675	$ 3,259
Available liquidity as of December 31, 2023	$ 330	$ 2,495	$ 2,825

Note 9: Income Taxes

The Company's effective income tax rate was 23.6% and 20.6% for the three months ended March 31, 2024 and 2023, respectively. The increase in the Company's effective income tax rate for the three months ended March 31, 2024, was primarily due to the decrease in the amortization of EADIT pursuant to regulatory orders and a decrease in deductions related to payments of stock-based compensation benefits.

On August 16, 2022, the Inflation Reduction Act of 2022 (the “IRA”) was signed into law. The IRA contains a 15% Corporate Alternative Minimum Tax (“CAMT”) provision on applicable corporations effective January 1, 2023. To determine if a company is considered an applicable corporation subject to CAMT, the company’s average adjusted financial statement income (“AFSI”) for the three consecutive years preceding the tax year must exceed $1 billion. An applicable corporation must make several adjustments to net income when determining AFSI. A corporation paying CAMT is eligible for a future tax credit, which can be utilized when regular tax exceeds CAMT. Based on current guidance, the Company is an applicable corporation subject to CAMT beginning in 2024 and expects to owe CAMT in excess of the regular tax liability. In the absence of an extension of the Internal Revenue Service (“IRS”) and the U.S. Treasury Notice 2023-42 (which provides relief of penalties related to the 2023 estimated tax payments associated with the CAMT liability), the Company will begin including the CAMT liability with its estimated cash payments in 2024. The Company will continue to evaluate the impacts of the IRA as the U.S. Treasury and the IRS issue additional guidance.

Note 10: Pension and Other Postretirement Benefits

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

	For the Three Months Ended March 31,	
	2024	**2023**
Components of net periodic pension benefit cost:		
Service cost	$ 5	$ 4
Interest cost	21	22
Expected return on plan assets	(24)	(23)
Amortization of prior service credit	(1)	(1)
Amortization of actuarial loss	6	4
Net periodic pension benefit cost	$ 7	$ 6
Components of net periodic other postretirement benefit credit:		
Service cost	$ 1	$ 1
Interest cost	3	4
Expected return on plan assets	(3)	(3)
Amortization of prior service credit	(8)	(8)
Amortization of actuarial loss	—	1
Net periodic other postretirement benefit credit	$ (7)	$ (5)

The Company contributed $11 million and $10 million for the funding of its defined benefit pension plans for the three months ended March 31, 2024 and 2023, respectively. The Company expects to make pension contributions to the plan trusts of $33 million during the remainder of 2024.

Note 11: Commitments and Contingencies

Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. As of March 31, 2024, the Company has accrued approximately $6 million of probable loss contingencies and has estimated that the maximum amount of loss associated with reasonably possible loss contingencies arising out of such legal actions, which can be reasonably estimated, is $2 million. For certain legal actions, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such legal actions, other than as described in this Note 11—Commitments and Contingencies, will not have a material adverse effect on the Company.

Dunbar, West Virginia Water Main Break Class Action Litigation

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

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

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

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

Chattanooga, Tennessee Water Main Break Class Action Litigation

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

On September 17, 2019, a complaint captioned Bruce, et al. v. American Water Works Company, Inc., et al. was filed in the Circuit Court of Hamilton County, Tennessee against TAWC, the Company and American Water Works Service Company, Inc. (“Service Company” and, together with TAWC and the Company, collectively, the “Tennessee-American Water Defendants”), on behalf of a proposed class of individuals or entities who lost water service or suffered monetary losses as a result of the Chattanooga incident (the “Tennessee Plaintiffs”). The complaint alleged breach of contract and negligence against the Tennessee-American Water Defendants, as well as an equitable remedy of piercing the corporate veil. In the complaint as originally filed, the Tennessee Plaintiffs were seeking an award of unspecified alleged damages for wage losses, business and economic losses, out-of-pocket expenses, loss of use and enjoyment of property and annoyance and inconvenience, as well as punitive damages, attorneys’ fees and pre- and post-judgment interest. In September 2020, the court dismissed all of the Tennessee Plaintiffs’ claims in their complaint, except for the breach of contract claims against TAWC, which remain pending. In October 2020, TAWC answered the complaint, and the parties have been engaging in discovery. On January 12, 2023, after hearing oral argument, the court issued an oral ruling denying the Tennessee Plaintiffs’ motion for class certification. On February 9, 2023, the Tennessee Plaintiffs sought reconsideration of the ruling by the court, and any final ruling is appealable to the Tennessee Court of Appeals, as allowed under Tennessee law. On September 21, 2023, the court upheld its prior ruling but gave the Tennessee Plaintiffs the option to file an amended class definition. On October 12, 2023, the Tennessee Plaintiffs filed an amended class definition seeking certification of a business customer-only class. On December 1, 2023, TAWC filed a memorandum in opposition to the amended class definition. On January 18, 2024, and April 19, 2024, the court heard oral argument on the motions. On April 19, 2024, the court provided an oral ruling denying the amended class and incorporating its denial of the original class. A written order will be drafted, and when entered, the Tennessee Plaintiffs will have a right under state law to appeal the denial of class certification.

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

Mountaineer Gas Company Main Break

During the afternoon of November 10, 2023, WVAWC was informed that an 8-inch ductile iron water main owned by WVAWC, located on the West Side of Charleston, West Virginia and originally installed in approximately 1989, experienced a leak. In the early morning hours of November 11, 2023, WVAWC crews successfully completed a repair to the water main. A precautionary boil water advisory was issued the same day to approximately 300 WVAWC customers and ultimately lifted on November 12, 2023.

On November 10, 2023, a break was reported in a low-pressure natural gas main located near the affected WVAWC water main, and an inflow of water into the natural gas main and associated delivery pipelines occurred. The natural gas main and pipelines are owned by Mountaineer Gas Company, a regulated natural gas distribution company serving over 220,000 customers in West Virginia ("Mountaineer Gas"). The resulting inflow of water into the natural gas main and related pipelines resulted in a loss of natural gas service to approximately 1,500 Mountaineer Gas customers, as well as water entering customer service lines and certain natural gas appliances owned or used by some of the affected Mountaineer Gas customers. Mountaineer Gas reported that restoration of natural gas service to all affected gas mains occurred on November 24, 2023. The timing, order and causation of both the WVAWC water main break and Mountaineer Gas's main break are currently unknown and under investigation.

To date, a total of four pending lawsuits have been filed against Mountaineer Gas and WVAWC purportedly on behalf of customers in Charleston, West Virginia related to these incidents. On November 14, 2023, a complaint captioned Ruffin et al. v. Mountaineer Gas Company and West Virginia-American Water Company was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of Mountaineer Gas residential and business customers and other households and businesses supplied with natural gas in Kanawha County, which lost natural gas service on November 10, 2023, as a result of these events. The complaint alleges, among other things, breach of contract by Mountaineer Gas, trespass by WVAWC, nuisance by WVAWC, violation of statutory obligations by Mountaineer Gas and WVAWC, and negligence by Mountaineer Gas and WVAWC. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for loss of use of natural gas, annoyance, inconvenience and lost profits, as well as punitive damages.

On November 15, 2023, a complaint captioned Toliver et al. v. West Virginia-American Water Company and Mountaineer Gas Company was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of all natural persons or entities who are citizens of the State of West Virginia and who are customers of WVAWC and/or Mountaineer Gas in the affected areas. The complaint alleges against Mountaineer Gas and WVAWC, among other things, negligence, nuisance, trespass and strict liability, as well as breach of contract against Mountaineer Gas. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for property damage, loss of use and enjoyment of property, annoyance and inconvenience and business losses, as well as punitive damages.

On November 16, 2023, a complaint captioned Dodson et al. v. West Virginia American Water and Mountaineer Gas Company was filed in West Virginia Circuit Court in Kanawha County on behalf of an alleged class of all West Virginia citizens living between Pennsylvania Avenue south of Washington Street, and Iowa Street, who are customers of Mountaineer Gas. The complaint alleges against Mountaineer Gas and WVAWC, among other things, negligence, nuisance, trespass, statutory code violations and unfair or deceptive business practices. The complaint seeks class-wide damages against Mountaineer Gas and WVAWC for property loss and damage, loss of use and enjoyment of property, mental and emotional distress, and aggravation and inconvenience, as well as punitive damages.

On January 4, 2024, a fourth complaint, captioned Thomas v. West Virginia-American Water Company and Mountaineer Gas Company, was filed in West Virginia Circuit Court in Kanawha County asserting similar allegations as those included in the Ruffin, Toliver and Dodson lawsuits, with the addition of counts alleging unjust enrichment and violations of the West Virginia Human Rights Act and the West Virginia Consumer Credit and Protection Act.

On November 17, 2023, the Ruffin plaintiff filed a motion to consolidate the class action lawsuits before a single judge in Kanawha County Circuit Court. The motion was granted orally as to all four class action lawsuits but no written order has yet been entered.

On December 5, 2023, a complaint captioned Mountaineer Gas Company v. West Virginia-American Water Company was filed in West Virginia Circuit Court in Kanawha County seeking damages under theories of trespass, negligence and implied indemnity. The damages being sought related to the incident include, among other things, repair and response costs incurred by Mountaineer Gas and attorneys’ fees and expenses incurred by Mountaineer Gas. On December 14, 2023, Mountaineer Gas filed a motion with the Supreme Court of West Virginia to transfer this case to the West Virginia Business Court. On December 29, 2023, WVAWC filed a joinder in the motion to transfer the case. WVAWC has also filed a partial motion to dismiss this lawsuit. On March 6, 2024, the motion to transfer the complaint captioned Mountaineer Gas Company v. West Virginia-American Water Company to the West Virginia Business Court was granted and trial and resolution judges were assigned. WVAWC’s partial motion to dismiss this lawsuit remains pending.

On December 20, 2023, Mountaineer Gas filed answers to each of the first three class action lawsuits, which included cross-claims against WVAWC alleging that Mountaineer Gas is without fault for the claims and damages alleged in the lawsuits and WVAWC should be required to indemnify Mountaineer Gas for any damages and for attorneys’ fees and expenses incurred by Mountaineer Gas in the lawsuits. WVAWC has filed a partial motion to dismiss certain claims in the Ruffin, Toliver, Dodson and Thomas lawsuits and a motion to dismiss the cross-claims asserted against WVAWC therein by Mountaineer Gas. Mountaineer Gas subsequently voluntarily dismissed its cross-claims. On January 30, 2024, a motion was filed with the West Virginia Supreme Court on behalf of the Toliver plaintiff to refer the four class action complaints and the Mountaineer Gas complaint to the West Virginia Mass Litigation Panel. On February 7, 2024, WVAWC filed a motion joining in that referral request. On February 19, 2024, Mountaineer Gas filed a motion opposing the referral of the four class action complaints and the Mountaineer Gas complaint to the West Virginia Mass Litigation Panel. On March 28, 2024, the Kanawha County Circuit Court trial judge filed a memorandum opposing the referral. The referral motion remains pending with the Chief Justice of the West Virginia Supreme Court.

On December 6, 2023, WVAWC initiated a process whereby Mountaineer Gas customers could file claims with WVAWC and seek payment from WVAWC of up to $2,000 per affected household for the inconvenience arising from a loss of use of their appliances and documented out-of-pocket expenses as a result of the natural gas outage. In light of the diminishing number of new claims being filed, the claims process was concluded on March 8, 2024. As of March 31, 2024, a total of 557 Mountaineer Gas customers completed this claims process, with another 87 claims to be completed, and the completed claimants were paid by WVAWC an average of approximately $1,500 each. In return, these customers were required to execute a partial release of liability in favor of WVAWC.

On November 16, 2023, the Public Service Commission of West Virginia (the “WVPSC”) issued an order initiating a general investigation into both the water main break and natural gas outages occurring in this incident to determine the cause or causes thereof, as well as breaks and outages generally throughout the systems of WVAWC and Mountaineer Gas and the utility practices of both utilities. Following a series of disagreements among the parties regarding the scope of discovery, the WVPSC closed the general investigation into both utilities and ordered a separate general investigation for each utility. The WVPSC focused the two general investigations away from the cause of the events and instead on the maintenance practices of each utility during and after the main breaks. On January 29, 2024, the Consumer Advocate Division of the WVPSC filed a motion to intervene in the WVAWC general investigation. WVAWC is cooperating with its general investigation. On March 1, 2024, the staff of the WVPSC issued an initial memorandum in each separate general investigation for Mountaineer Gas and WVAWC. On April 24, 2024, the staff issued a final joint memorandum in the Mountaineer Gas general investigation stating its view that Mountaineer Gas responded appropriately, reasonably and according to Mountaineer Gas’s written procedures. The staff is making no recommendations for improvements to Mountaineer Gas and is recommending that the Mountaineer Gas general investigation be closed. Both general investigations remain pending, and the due date for the staff memorandum in the WVAWC general investigation is July 24, 2024.

The Company and WVAWC believe that the causes of action and other claims asserted against WVAWC in the class action complaints and the lawsuit filed by Mountaineer Gas are without merit and that WVAWC has meritorious defenses to such claims, and WVAWC is defending itself vigorously in these litigation proceedings. Given the current stage of these proceedings and the general investigation, the Company and WVAWC are currently unable to predict the outcome of any of the proceedings described above, and the Company cannot currently determine the likelihood of a loss, if any, or estimate the amount of any loss or a range of loss related to this proceeding.

Alternative Water Supply in Lieu of Carmel River Diversions

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

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

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

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

In September 2018, the CPUC unanimously approved another final decision finding that the Water Supply Project meets the CPUC’s requirements for a certificate of public convenience and necessity and an additional procedural phase was not necessary to consider alternative projects. The CPUC’s 2018 decision concludes that the Water Supply Project is the best project to address estimated future water demands in Monterey, and, in addition to the cost recovery approved in its 2016 decision, adopts Cal Am’s cost estimates for the Water Supply Project, which amounted to an aggregate of $279 million plus AFUDC at a rate representative of Cal Am’s actual financing costs. The 2018 final decision specifies the procedures for recovery of all of Cal Am’s prudently incurred costs associated with the Water

Supply Project upon its completion, subject to the frameworks included in the final decision related to cost caps, operation and maintenance costs, financing, ratemaking and contingency matters. The reasonableness of the Water Supply Project costs will be reviewed by the CPUC when Cal Am seeks cost recovery for the Water Supply Project. Cal Am is also required to implement mitigation measures to avoid, minimize or offset significant environmental impacts from the construction and operation of the Water Supply Project and comply with a mitigation monitoring and reporting program, a reimbursement agreement for CPUC costs associated with that program, and reporting requirements on plant operations following placement of the Water Supply Project in service. Cal Am has incurred $248 million in aggregate costs as of March 31, 2024, related to the Water Supply Project, which includes $76 million in AFUDC.

In September 2021, Cal Am, Monterey One Water and the MPWMD reached an agreement on Cal Am’s purchase of additional water from an expansion to the GWR Project, which is not expected to produce additional water until 2024 at the earliest. On December 5, 2022, the CPUC issued a final decision that authorized Cal Am to enter into the amended water purchase agreement, and specifically to increase pumping capacity and reliability of groundwater extraction from the Seaside Groundwater Basin. The final decision sets the cost cap for the proposed facilities at approximately $62 million. Cal Am may seek recovery of amounts above the cost cap in a subsequent rate filing or general rate case. Additionally, the final decision authorizes AFUDC at Cal Am’s actual weighted average cost of debt for most of the facilities. On December 30, 2022, Cal Am filed with the CPUC an application for rehearing of the CPUC’s December 5, 2022, final decision, and on March 30, 2023, the CPUC issued a decision denying Cal Am’s application for rehearing, but adopting its proposed AFUDC for already incurred and future costs. This decision also provided Cal Am the opportunity to serve supplemental testimony to increase its cost cap for certain of the Water Supply Project’s extraction wells. The amended water purchase agreement and a memorandum of understanding to negotiate certain milestones related to the expansion of the GWR Project have been signed by the relevant parties. Further hearings were scheduled in a Phase 2 to this CPUC proceeding to focus on updated supply and demand estimates for the Water Supply Project, and Phase 2 testimony was completed in September 2022. On October 23, 2023, a status conference was held to determine procedural steps to conclude the proceeding, and further evidentiary hearings were held in March 2024.

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

Coastal Development Permit Application

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

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

In November 2022, the Coastal Commission approved the Marina Application and the Original Jurisdiction Application with respect to the phased development of the proposed desalination plant, subject to compliance with a number of conditions, all of which Cal Am expects to satisfy. In December 2022, the City, Marina Coast Water District (“MCWD”), MCWD’s groundwater sustainability agency, and the MPWMD jointly filed a petition for writ of mandate in Monterey County Superior Court against the Coastal Commission, alleging that the Coastal Commission violated the California Coastal Act and the California Environmental Quality Act in issuing a coastal development permit to Cal Am for construction of the slant wells. Cal Am is named as a real party in interest. On November 14, 2023, the court set an initial trial date of May 1, 2024. This matter remains pending.

Following the issuance of the coastal development permit, Cal Am continues to work constructively with all appropriate agencies to provide necessary information in connection with obtaining the remaining required permits for the Water Supply Project. However, there can be no assurance that the Water Supply Project in its current configuration will be completed on a timely basis, if ever. For the year ended December 31, 2023, Cal Am has complied with the diversion limitations contained in the 2016 Order. Continued compliance with the diversion limitations in 2024 and future years may be impacted by a number of factors, including, without limitation, potential recurrence of drought conditions in California and the exhaustion of water supply reserves, and will require successful development of alternate water supply sources sufficient to meet customer demand. The Orders remain in effect until Cal Am certifies to the SWRCB, and the SWRCB concurs, that Cal Am has obtained a permanent supply of water to substitute for past unauthorized Carmel River diversions. While the Company cannot currently predict the likelihood or result of any adverse outcome associated with these matters, further attempts to comply with the Orders may result in material additional costs and obligations to Cal Am, including fines and penalties against Cal Am in the event of noncompliance with the Orders.

Cal Am’s Action for Damages Following Termination of Regional Desalination Project (“RDP”)

In 2010, the CPUC had approved the RDP, which was a precursor to the current Water Supply Project and called for the construction of a desalination facility in the City of Marina. The RDP was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the “Agreements”) among MCWD, Cal Am and the Monterey County Water Resources Agency (“MCWRA”). In 2011, due to a conflict of interest concerning a former member of MCWRA’s Board of Directors, MCWRA stated that the Agreements were void, and, as a result, Cal Am terminated the Agreements. In ensuing litigation filed by Cal Am in 2012 to resolve the termination of the RDP, the court in 2015 entered a final judgment agreeing with Cal Am’s position that four of the five Agreements are void, and one, the credit line agreement, is not void. As a result of this litigation, Cal Am was permitted to institute further proceedings, discussed below, to determine the amount of damages that may be awarded to Cal Am as a result of the failure of the RDP.

In 2015, Cal Am and MCWRA filed a complaint in San Francisco County Superior Court against MCWD and RMC Water and Environment, a private engineering consulting firm ("RMC"), seeking to recover compensatory, consequential and incidental damages associated with the failure of the RDP, as well as punitive and treble damages, statutory penalties and attorneys' fees. In 2019, MCWD was granted a motion for summary judgment related to the tort claims in the complaint. A settlement as to the non-tort claims was finalized and entered into in March 2020. In July 2020, Cal Am appealed the grant of summary judgment on MCWD's tort claims, and in December 2022, the trial court's decision was reversed with instructions to vacate its prior orders granting MCWD's motions for summary judgment and to enter new orders denying the motions. In February 2023, MCWD filed a petition for review of the appellate decision with the California Supreme Court, which was denied in March 2023. The trial court's prior trial date of May 6, 2024, for Cal Am's remaining tort claims against MCWD, has been vacated, and a new trial date will be set for later in the year.

Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action

Local Agency Formation Commission Litigation

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

In February 2021, the MPWMD filed an application with the Local Agency Formation Commission of Monterey County ("LAFCO") seeking approval to become a retail water provider and annex approximately 58 parcels of land into the MPWMD's boundaries. In June 2021, LAFCO's commissioners voted to require a third-party independent financial study as to the feasibility of an acquisition by the MPWMD of the Monterey system assets. In December 2021, LAFCO's commissioners denied the MPWMD's application to become a retail water provider, determining that the MPWMD does not have the authority to proceed with a condemnation of the Monterey system assets. In April 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. In June 2022, the court granted, with conditions, a motion by Cal Am to intervene in the MPWMD's lawsuit against LAFCO. In December 2022, the court sustained in part, and denied in part, demurrers that had been filed by LAFCO seeking to dismiss the MPWMD's lawsuit.

On December 11, 2023, the Monterey County Superior Court issued a writ of mandate directing LAFCO to vacate and set aside its original denial of the MPWMD's application to serve as a retail water provider (in conjunction with its effort to acquire the Monterey system assets) and to re-hear the application in compliance with all applicable law. The court held that LAFCO incorrectly applied two statutory standards and noted a lack of sufficient evidence to support certain of LAFCO's factual findings. As a result, the LAFCO denial has been nullified and LAFCO will be required to hold another hearing on the MPWMD's application. On February 8, 2024, and February 9, 2024, respectively, Cal Am and LAFCO each filed a notice of appeal with the California Court of Appeals regarding the Monterey County Superior Court's decision to issue the writ of mandate. The MPWMD filed a notice of cross-appeal on February 15, 2024. Cal Am is evaluating potential additional actions to seek to uphold LAFCO's denial of the MPWMD's application, including filing other challenges and/or making suitable presentations at a subsequent LAFCO rehearing.

MPWMD Condemnation Actions

Separate from the proceedings related to the MPWMD's application with LAFCO, by letter dated October 3, 2022, the MPWMD notified Cal Am of a decision to appraise the Monterey system assets and requesting access to a number of Cal Am's properties and documents to assist the MPWMD with such an appraisal. Cal Am responded by letter on October 24, 2022, denying the request for access, stating that the MPWMD does not have the right to appraise Cal Am's system without LAFCO approval to become a retail water provider. On April 28, 2023, Cal Am rejected an offer by the MPWMD to purchase the Monterey system assets for $448.8 million. Over the written and oral objections of Cal Am, at a hearing held on October 10, 2023, the MPWMD adopted a resolution of necessity to authorize it to file an eminent domain lawsuit with respect to the Monterey system assets. On December 15, 2023, the MPWMD filed a lawsuit in Monterey County Superior Court seeking to condemn the Monterey system assets. On February 26, 2024, Cal Am filed a motion requesting the Monterey County Superior Court dismiss the MPWMD's lawsuit seeking to condemn Cal Am's Monterey system assets. Cal Am's motion asserts that the MPWMD lacks legal authorization from both the California legislature and LAFCO to become a retail water provider and the lawsuit improperly seeks to effect a taking of property outside the boundaries of the MPWMD's territory. The motion is scheduled for a hearing on May 3, 2024.

While the Company cannot currently predict the outcome of the MPWMD's eminent domain lawsuit, the Company believes that, given existing legal precedent related to similar attempts by public agencies in California to take over water systems and its other defenses, Cal Am should be able to defend itself successfully against this lawsuit.

West Virginia Elk River Freedom Industries Chemical Spill

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

As of March 31, 2024, $0.5 million of the aggregate Settlement amount of $126 million remains reflected in accrued liabilities, and $0.5 million in an offsetting insurance receivable remains reflected in other current assets on the Consolidated Balance Sheets pending resolution of all asserted actual or potential claims associated with this matter. The amount reflected in accrued liabilities reflects the status of the liability and the offsetting insurance receivable reflected in other current assets, each as of March 31, 2024.

Note 12: Earnings per Common Share

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

	For the Three Months Ended March 31,	
	2024	**2023**
Numerator:		
Net income attributable to common shareholders	$ 185	$ 170
Denominator:		
Weighted-average common shares outstanding—Basic	195	186
Effect of dilutive common stock equivalents	—	—
Weighted-average common shares outstanding—Diluted	195	186

The effect of dilutive common stock equivalents is related to outstanding restricted stock units (“RSUs”) and performance stock units (“PSUs”) granted under the Company’s 2007 Omnibus Equity Compensation Plan and outstanding RSUs and PSUs granted under the Company’s 2017 Omnibus Equity Compensation Plan, as well as estimated shares to be purchased under the Company’s 2017 Nonqualified Employee Stock Purchase Plan. Less than one million share-based awards were excluded from the computation of diluted EPS for the three months ended March 31, 2024 and 2023, because their effect would have been anti-dilutive under the treasury stock method.

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

Note 13: Fair Value of Financial Information

Fair Value of Financial Instruments

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

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

Secured seller promissory note from the sale of the Homeowner Services Group—The carrying amount reported on the Consolidated Balance Sheets for the secured seller promissory note, included as part of the consideration from the sale of HOS, is $795 million and $720 million as of March 31, 2024 and December 31, 2023, respectively. On February 2, 2024, the secured seller promissory note from the sale of HOS was amended to increase the principal amount, in full satisfaction of a $75 million contingent cash payment, see Note 5—Acquisitions and Divestitures for additional information. This amount represents the principal amount owed under the secured seller promissory note, for which the Company expects to receive full payment. The accounting fair value measurement of the secured seller promissory note approximated $789 million and $704 million as of March 31, 2024 and December 31, 2023, respectively. The accounting fair value measurement is an estimate that is reflective of changes in benchmark interest rates. The secured seller promissory 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 March 31, 2024				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 3	$ —	$ —	$ 3	$ 3
Long-term debt	13,123	10,402	1,035	653	12,090

	As of December 31, 2023				
		At Fair Value			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	$ 3	$ —	$ —	$ 3	$ 3
Long-term debt	12,190	9,575	1,044	757	11,376

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 March 31, 2024			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 42	$ —	$ —	$ 42
Rabbi trust investments	25	—	—	25
Deposits	8	—	—	8
Other investments				
Money market and other	20	—	—	20
Fixed-Income Securities	135	6	—	141
Total assets	230	6	—	236
Liabilities:				
Deferred compensation obligations	29	—	—	29
Total liabilities	29	—	—	29
Total assets	$ 201	$ 6	$ —	$ 207

	As of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Restricted funds	$ 34	$ —	$ —	$ 34
Rabbi trust investments	22	—	—	22
Deposits	8	—	—	8
Other investments				
Money market and other	26	—	—	26
Fixed-Income Securities	140	6	—	146
Total assets	230	6	—	236
Liabilities:				
Deferred compensation obligations	27	—	—	27
Mark-to-market derivative liability	—	8	—	8
Total liabilities	27	8	—	35
Total assets	$ 203	$ (2)	$ —	$ 201

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

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

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

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

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

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

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

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

The Company includes other investments measured and recorded at fair value on the Consolidated Balance Sheets of $72 million and $62 million in other current assets, as of March 31, 2024 and December 31, 2023, respectively, and $90 million and $111 million in other long-term assets, as of March 31, 2024 and December 31, 2023, respectively. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income until realized.

The following tables summarize the unrealized positions for available-for-sale fixed income securities as of March 31, 2024 and December 31, 2023:

	As of March 31, 2024			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale fixed-income securities	$ 138	$ 6	$ 3	$ 141

	As of December 31, 2023			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale fixed-income securities	$ 143	$ 6	$ 3	$ 146

The fair value of the Company’s available-for-sale fixed income securities, summarized by contractual maturities, as of March 31, 2024, is as follows:

	Amount
Other investments - Available-for-sale fixed-income securities	
Less than one year	$ 98
1 year - 5 years	30
5 years - 10 years	4
Greater than 10 years	9
Total	$ 141

Note 14: Leases

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

The Company participates in a number of arrangements with various public entities (“Partners”) in West Virginia. Under these arrangements, the Company transferred a portion of its utility plant to the Partners in exchange for an equal principal amount of Industrial Development Bonds (“IDBs”) issued by the Partners under the Industrial Development and Commercial Development Bond Act. The Company leased back the utility plant under agreements for a period of 30 to 40 years. The Company has recorded these agreements as finance leases in property, plant and equipment, as ownership of the assets will revert back to the Company at the end of the lease term. The carrying value of the finance lease assets was $144 million as of March 31, 2024 and December 31, 2023. The Company determined that the finance lease obligations and the investments in IDBs meet the conditions for offsetting, and as such, are reported net on the Consolidated Balance Sheets and are excluded from the lease disclosure presented below.

The Company also enters into O&M agreements with the Partners. The Company pays an annual fee for use of the Partners’ assets in performing under the O&M agreements. The O&M agreements are recorded as operating leases, and future annual use fees of $3 million in 2024, $4 million in 2025 through 2028, and $41 million thereafter, are included in operating lease ROU assets and operating lease liabilities on the Consolidated Balance Sheets.

Rental expenses under operating leases were $3 million for the three months ended March 31, 2024 and March 31, 2023.

For the three months ended March 31, 2024, cash paid for amounts in lease liabilities, which includes operating cash flows from operating leases, was $3 million. For the three months ended March 31, 2024, there were ROU assets obtained in exchange for new operating lease liabilities of $6 million.

As of March 31, 2024, the weighted-average remaining lease term of the operating leases was 18 years, and the weighted-average discount rate of the operating leases was 5%.

The future maturities of lease liabilities as of March 31, 2024, were $8 million in 2024, $10 million in 2025, $9 million in 2026, $9 million in 2027, $7 million in 2028, and $89 million thereafter. As of March 31, 2024, imputed interest was $48 million.

Note 15: Segment Information

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

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

Presented in the tables below is summarized segment information:

	As of or for the Three Months Ended March 31, 2024		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 928	$ 83	$ 1,011
Depreciation and amortization	184	4	188
Total operating expenses, net	611	74	685
Interest expense	(97)	(27)	(124)
Interest income	3	21	24
Provision for income taxes	53	4	57
Net income attributable to common shareholders	185	—	185
Total assets	27,807	3,279	31,086
Cash paid for capital expenditures	603	6	609

	As of or for the Three Months Ended March 31, 2023		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 860	$ 78	$ 938
Depreciation and amortization	169	3	172
Total operating expenses, net	572	71	643
Interest expense	(87)	(28)	(115)
Interest income	1	13	14
Provision for (benefit from) income taxes	46	(2)	44
Net income (loss) attributable to common shareholders	174	(4)	170
Total assets	25,626	2,660	28,286
Cash paid for capital expenditures	524	2	526

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, 2023. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about the Company's business, operations and financial performance. The cautionary statements made in this Form 10-Q should be read as applying to all related forward-looking statements whenever they appear in this Form 10-Q. The Company's actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those that are discussed under "Forward-Looking Statements" and elsewhere in this Form 10-Q. The Company has a disclosure committee consisting of members of senior management and other key employees involved in the preparation of the Company's SEC reports. The disclosure committee is actively involved in the review and discussion of the Company's SEC filings.

Overview

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

Financial Results

For the three months ended March 31, 2024, diluted earnings per share, prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), were $0.95, an increase of $0.04, as compared to the same period in the prior year. The increase was primarily driven by the implementation of new rates in the Regulated Businesses from its capital and acquisition investments, offset somewhat by increased production and employee related costs, higher financing costs to fund the capital investment plan, including the 2023 equity issuance, and $0.05 per share of net unfavorable one-time items year-over-year. Results for the three months ended March 31, 2024, include additional interest income of $0.02 per share, resulting from the early 2024 amendment to the secured seller note from the sale of the former HOS business.

Growth Through Capital Investment in Infrastructure and Regulated Acquisitions

The Company continues to grow its businesses, with the substantial 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, (ii) regulated acquisitions to expand the Company's services to new customers and (iii) the addition of approximately 4,400 new customers through organic growth in existing systems. The Company plans to invest approximately $3.1 billion in these growth strategies in 2024. During the first three months of 2024, the Company invested $720 million, primarily in the Regulated Businesses, as discussed below.

Growth and Optimization

- $634 million capital investment, primarily in the Regulated Businesses for infrastructure improvements and replacements; and
- $86 million to fund the Company’s Illinois subsidiary’s acquisition of a wastewater treatment plant and related assets from Granite City, which treatment plant serves approximately 26,000 customers, including 15,500 customers indirectly in surrounding communities

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

On October 11, 2022, the Company’s Pennsylvania subsidiary entered into an agreement to acquire the public wastewater collection and treatment system assets (the “System Assets”) from the Butler Area Sewer Authority. On November 9, 2023, the Pennsylvania Public Utility Commission (the “PaPUC”) approved a settlement agreement without modification with respect to the Company’s Pennsylvania subsidiary’s application to acquire the System Assets from the Butler Area Sewer Authority for a purchase price of $230 million, subject to adjustment as provided for in the asset purchase agreement. This system provides wastewater service for approximately 15,000 customer connections. On December 14, 2023, Center Township and Summit Township filed appeals with the Pennsylvania Commonwealth Court seeking to reverse the order entered by the PaPUC approving the sale of the System Assets. On December 29, 2023, the Company’s Pennsylvania subsidiary filed applications with the Commonwealth Court seeking to dismiss the appeals and requesting expedited consideration. By order dated February 1, 2024, the Commonwealth Court deferred deciding the application to dismiss the appeals and directed that the issues raised by the applications to dismiss are to be considered as part of the merits of the appeals and that the disposition of the appeals was to be expedited. Based on the court’s schedule, the Company estimates that the disposition of the appeals could occur as soon as the second quarter of 2024.

In December 2020, the Company’s Pennsylvania subsidiary entered into an agreement (an acquisition intended to comply with Act 12 (discussed below)) to acquire the wastewater collection system assets of Brentwood Borough (“Brentwood”) for a purchase price of approximately $19 million. On February 22, 2024, the PaPUC denied the Pennsylvania subsidiary’s application to acquire Brentwood. On April 3, 2024, the Pennsylvania subsidiary filed an appeal of the decision with the Pennsylvania Commonwealth Court, asserting, among other things, the PaPUC did not apply the correct legal standard in its decision. The Company cannot currently predict the outcome of this appeal, and the matter remains pending.

As of March 31, 2024, the Company had entered into 26 agreements with a total aggregate purchase price of $517 million for pending acquisitions in the Regulated Businesses, including the agreements discussed above, to add approximately 66,800 additional customers. Four of these 26 agreements, representing an aggregate purchase price of $251 million (including Butler Area Sewer Authority, discussed above) and serving approximately 18,800 customers, have received commission approval. The remaining pending acquisitions, including 13,400 customers under Act 12, require regulatory approval to complete.

On February 7, 2024, the PaPUC proposed the Tentative Supplemental Implementation Order which seeks to make certain changes to the process by which the PaPUC considers and decides applications to acquire water and wastewater assets under Pennsylvania’s existing utility valuation law, known as Act 12 of 2016 (“Act 12”). The Tentative Supplemental Implementation Order proposes, among other things, a reasonableness review ratio that would be applied to help guide the determination on the overall prudency of the transaction and reasonableness of the purchase price. The public comment period on the proposed Tentative Supplemental Implementation Order has ended and a final order is expected soon. Separately, draft legislation has also been proposed in the Pennsylvania House of Representatives that would amend Act 12 and establish new guidelines for evaluating applicable acquisitions. The Company cannot currently predict the outcome of these or other legislative initiatives, or their impacts, but the Company intends to continue to support outcomes that allow for consolidation and investment in water and wastewater infrastructure in Pennsylvania and in its other regulated jurisdictions.

Other Matters

Environmental, Health and Safety, and Water Quality Regulation

On April 10, 2024, the U.S. Environmental Protection Agency (“EPA”) announced a final National Primary Drinking Water Regulation (“NPDWR”) for six PFAS, including perfluorooctanoic acid (“PFOA”), perfluorooctane sulfonic acid (“PFOS”), perfluorononanoic acid (“PFNA”), hexafluoropropylene oxide dimer acid (“HFPO-DA”, commonly known as “GenX Chemicals”), perfluorohexane sulfonic acid (“PFHxS”), and perfluorobutane sulfonic acid (“PFBS”). The NPDWR establishes legally enforceable levels, called Maximum Contaminant Levels (“MCLs”), for PFAS in drinking water. Utilities will be required to complete their initial monitoring for PFAS by 2027, followed by ongoing compliance monitoring. Utilities will be required to comply with the new MCLs by April 2029, implementing solutions to reduce PFAS levels where needed. Beginning in April 2029, utilities that exceed any of the PFAS MCLs will be required to provide notification to the public of the violation.

The Company performed an initial review of the NPDWR, when it was proposed by the EPA in March 2023, to assess the MCL requirements for PFAS and the application of the Hazard Index approach for PFNA, PFBS, PFHxS, and GenX Chemicals. While the proposed MCLs were finalized without change, EPA also set MCLs for three of the four PFAS analytes included in the Hazard Index as part of the final rule. Subject to the Company’s continuing review of the NPDWR and the adoption of more stringent requirements by state environmental regulators, as previously disclosed, the Company estimates an investment of approximately $1 billion of capital expenditures to install additional treatment facilities over a five-year period in order to comply with the new regulations. Additionally, the Company estimates that it will incur annual operating expenses of up to approximately $50 million related to testing and treatment, with the majority of the operating expenses beginning after the April 2029 compliance deadline. The actual expenses may differ from these estimates and will be dependent upon the Company completing its review and analysis of the NPDWR.

The Company supports sound policies and compliance with the NPDWR by all water utilities, while protecting customers and communities from the costly burden of monitoring and mitigating PFAS contamination in water systems. The Company continues to advocate for policies that hold polluters accountable and is participating in the multi-district litigation and other lawsuits filed against certain PFAS manufacturers seeking damages and reimbursement of costs incurred and continuing to be incurred to address contamination of public water supply systems by PFAS. For more information on the PFAS multi-district litigation, see Part II, Item 1—Legal Proceedings—PFAS Multi-District Litigation.

On April 19, 2024, the EPA issued a final rule to designate PFOA and PFOS as hazardous substances under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). American Water is evaluating the final rule. The Company, along with a coalition (Water Coalition Against PFAS) of many other water and wastewater organizations, is actively advocating for and supporting bipartisan legislation that would provide PFAS liability protections under CERCLA for water and wastewater systems, as passive receivers of PFAS, and to hold polluters, and not the public or customers, accountable for PFAS related liability.

Regulatory Matters

General Rate Cases

Presented in the table below are annualized incremental revenues, including reductions for the amortization of the excess accumulated deferred income taxes ("EADIT") that are generally offset in income tax expense, assuming a constant sales volume and customer count, resulting from general rate case authorizations that became effective during 2024:

(In millions)	Effective Date	Amount
General rate cases by state:		
West Virginia	February 25, 2024	$ 18
Indiana, Step Increase	February 21, 2024	25
Total general rate case authorizations		$ 43

On March 4, 2024, the West Virginia Public Service Commission issued an order approving the adjustment of base rates requested in a rate case filed on May 1, 2023, by the Company's West Virginia subsidiary. The general rate case order approved an $18 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges of $7 million, based on an authorized return on equity of 9.8%, authorized rate base of $886 million, which reflects capital investments through February 2024, a common equity ratio of 50.1% and a long-term debt ratio of 49.9%. The increased water and wastewater revenues related to the base rate adjustment are being driven primarily by (i) $220 million of related water and wastewater system capital investments made since the completion of the West Virginia subsidiary's previous rate case, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

On February 14, 2024, the Indiana Utility Regulatory Commission (“IURC”) issued an order approving the adjustment of base rates requested in a rate case filed on March 31, 2023, by the Company’s Indiana subsidiary. The general rate case order approved a $66 million annualized increase in water and wastewater system revenues, excluding previously recovered infrastructure surcharges, based on an authorized return on equity of 9.65%, authorized rate base of $1.84 billion, a common equity ratio of 56.15% and a debt ratio of 43.85%. For purposes of determining rates, the adjustment is based on an equity component of 48.19% due to the regulatory practice in Indiana of including certain zero-cost items or tax credit balances in the capital structure calculation. The annualized revenue increase will include three step increases, with $25 million of the increase to be included in rates in February 2024, $17 million in May 2024, and $24 million in May 2025. The increases are being driven primarily by (i) over $875 million of water and wastewater system capital investments since the completion of the Indiana subsidiary’s last rate case and through April 30, 2025, (ii) higher pension and other postretirement benefit costs, and (iii) increases in production costs, including chemicals, fuel and power costs.

Pending General Rate Case Filings

On May 1, 2024, the Company’s Iowa subsidiary filed a general rate case requesting approximately $21 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 52.57% and debt component of 47.43%. The requested annualized revenue increase is driven primarily by approximately $157 million in capital investments made and to be made by the Iowa subsidiary through March 2026.

On May 1, 2024, the Company’s Tennessee subsidiary filed a general rate case requesting approximately $14 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 54.52% and debt component of 45.48%. The requested annualized revenue increase is driven primarily by approximately $173 million in capital investments made and to be made by the Tennessee subsidiary through December 2025.

On January 25, 2024, the Company’s Illinois subsidiary filed tariffs for new water and wastewater rates. The request seeks a two-step rate increase consisting of aggregate annualized incremental revenue, based on a proposed return on equity of 10.75%, of (i) approximately $132 million, excluding infrastructure surcharges of $5 million, effective January 1, 2025, based on a future test year through December 31, 2025, with average rate base and a capital structure with an equity component of 52.27% and a debt component of 47.73%, and (ii) approximately $16 million effective January 1, 2026, based on a future test year to include end of period rate base and a capital structure with an equity component of 54.43% and a debt component of 45.57%. The requested increases are driven primarily by an estimated $557 million in capital investments to be made by the Illinois subsidiary from January 2024 through December 2025. The request also proposes a treatment and compliance rider to address recovery of future environmental compliance investments, and a modification to the existing volume balancing account mechanism to include full production cost recovery.

On January 19, 2024, the Company’s New Jersey subsidiary filed a general rate case requesting approximately $162 million in additional annualized revenues, which is based on a proposed return on equity of 10.75% and a capital structure with an equity component of 56.30% and a debt component of 43.70%. The requested annualized revenue increase is driven primarily by approximately $1.3 billion in capital investments made and to be made by the New Jersey subsidiary through December 2024. The request also proposes a revenue decoupling mechanism and seeks a deferral of certain production cost adjustments.

On December 15, 2023, the Company’s California subsidiary submitted a request to delay by one year its cost of capital filing and maintain its current authorized cost of capital through 2025. On February 2, 2024, the California Public Utilities Commission (“CPUC”) granted the request for a one year extension of the cost of capital filing to May 1, 2025, to set its authorized cost of capital beginning January 1, 2026.

On November 8, 2023, the Company’s Pennsylvania subsidiary filed a general rate case requesting approximately $204 million in additional annualized revenues, excluding projected infrastructure surcharges of $20 million. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 55.30% and a debt component of 44.70%. The requested annualized incremental revenue increase is driven primarily by an estimated $1.0 billion of incremental capital investments to be made through mid-2025. The request also proposes a mechanism to address compliance with evolving environmental requirements, such as emerging federal regulations for lead and PFAS substances. If approved, the new rates would be expected to take effect on August 7, 2024.

On November 1, 2023, the Company’s Virginia subsidiary filed a general rate case requesting $20 million in additional annualized revenues. The request is based on a proposed return on equity of 10.95% and a capital structure with an equity component of 45.67% and a debt and other component of 54.33%. The requested increase is driven by approximately $110 million in capital investments between May 2023 and April 2025. The request also proposed a revenue decoupling mechanism and seeks deferral of certain production cost adjustments. Interim rates became effective May 1, 2024, with the difference between interim and final approved rates subject to refund.

On June 30, 2023, the Company’s Kentucky subsidiary filed a general rate case requesting $26 million in additional annualized revenues, excluding infrastructure surcharges of $10 million. Proposed rates were effective on an interim basis on February 6, 2024, and the difference between the interim and final approved rates is subject to refund. The request is based on a proposed return on common equity of 10.75% and a proposed capital structure with a common equity component of 52.45%. An order is expected in the general rate case in May of 2024.

On July 1, 2022, the Company’s California subsidiary filed a general rate case requesting an increase in 2024 revenue of $56 million and a total increase in revenue over the 2024 to 2026 period of $95 million, all as compared to 2022 revenues. The Company updated its filing in January 2023 to capture the authorized step increase effective January 1, 2023. The filing was also updated to incorporate a decoupling proposal and a revision to the Company’s sales and associated variable expense forecast. The revised filing requested additional annualized revenues for the test year 2024 of $37 million, compared to 2023 revenues. This excludes the proposed step rate and attrition rate increase for 2025 and 2026 of $20 million and $19 million, respectively. The total revenue requirement request for the three-year rate case cycle, incorporating updates to present rate revenues and forecasted demand, is $76 million. On November 17, 2023, the California subsidiary filed with the CPUC a partial settlement agreement reached with the CPUC’s Public Advocates Office, which would determine the amount of incremental annualized water and wastewater revenue to be received by the California subsidiary to be $20 million in the 2024 test year, $16 million in the 2025 escalation year, and $15 million in the 2026 attrition year. The partial settlement agreement addresses the California subsidiary’s revenue requirement request but does not address rate design or certain other matters, such as the requested inclusion and implementation of a revenue stability mechanism to separate the California subsidiary’s revenue and water sales. New rates would be implemented retroactively to January 1, 2024, upon a final decision issued by the CPUC approving the partial settlement agreement and resolving the other issues not addressed by the partial settlement agreement, which is expected to occur in the second half of 2024.

Infrastructure Surcharges

A number of states have authorized the use of regulatory mechanisms that permit rates to be adjusted outside of a general rate case for certain costs and investments, such as infrastructure surcharge mechanisms that permit recovery of capital investments to replace aging infrastructure. Presented in the table below are annualized incremental revenues, assuming a constant sales volume and customer count, resulting from infrastructure surcharge authorizations that became effective during 2024:

(In millions)	**Effective Date**	**Amount**
Infrastructure surcharges by state:		
New Jersey	April 30, 2024	$ 9
Pennsylvania	April 1, 2024	7
Iowa	March 1, 2024	1
West Virginia (a)	March 1, 2024	7
Missouri	January 20, 2024	26
Illinois	January 1, 2024	5
Total infrastructure surcharge authorizations		$ 55

(a) On March 5, 2024, the West Virginia Public Service Commission directed the Company's West Virginia subsidiary to interpret the distribution system improvement charge ("DSIC") Order as having included within the DSIC the three-year amortization of a prior authorized deferral associated with a large treatment plant project. The inclusion of this deferral increased the net incremental revenue by $0.7 million to a total of $6.6 million effective March 1, 2024.

Pending Infrastructure Surcharge Filings

On March 1, 2024, the Company's Missouri subsidiary filed an infrastructure surcharge proceeding requesting $20 million in additional annualized revenues.

Other Regulatory Matters

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

Consolidated Results of Operations

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

	For the Three Months Ended March 31,	
	2024	2023
(In millions)		
Operating revenues	$ 1,011	$ 938
Operating expenses:		
Operation and maintenance	416	393
Depreciation and amortization	188	172
General taxes	81	78
Total operating expenses, net	685	643
Operating income	326	295
Other (expense) income:		
Interest expense	(124)	(115)
Interest income	24	14
Non-operating benefit costs, net	9	9
Other, net	7	11
Total other (expense) income	(84)	(81)
Income before income taxes	242	214
Provision for income taxes	57	44
Net income attributable to common shareholders	$ 185	$ 170

Segment Results of Operations

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

Regulated Businesses Segment

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

(In millions)	For the Three Months Ended March 31, 2024	2023
Operating revenues	$ 928	$ 860
Operation and maintenance	351	330
Depreciation and amortization	184	169
General taxes	76	73
Other expenses	(79)	(68)
Provision for income taxes	53	46
Net income attributable to common shareholders	$ 185	$ 174

Operating Revenues

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

	For the Three Months Ended March 31,	
(In millions)	2024	2023
Water services:		
Residential	$ 504	$ 461
Commercial	187	171
Fire service	41	39
Industrial	42	38
Public and other	58	65
Total water services	832	774
Wastewater services:		
Residential	59	54
Commercial	16	14
Industrial	2	2
Public and other	8	6
Total wastewater services	85	76
Other (a)	11	10
Total operating revenues	$ 928	$ 860

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

	For the Three Months Ended March 31,	
(Gallons in millions)	2024	2023
Billed water services volumes:		
Residential	34,414	33,808
Commercial	17,291	16,836
Industrial	8,337	8,840
Fire service, public and other	11,116	11,688
Total billed water services volumes	71,158	71,172

For the three months ended March 31, 2024, operating revenues increased $68 million, primarily due to a $53 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states and an $8 million increase from water and wastewater acquisitions, as well as organic growth in existing systems. In addition, operating revenues were $6 million higher as a result of reduced amortization of EADIT, primarily in the Company’s Missouri subsidiary.

Operation and Maintenance

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

(In millions)	For the Three Months Ended March 31, 2024	2023
Employee-related costs	$ 135	$ 129
Production costs	102	93
Operating supplies and services	63	57
Maintenance materials and supplies	22	22
Customer billing and accounting	14	13
Other	15	16
Total operation and maintenance expense	$ 351	$ 330

For the three months ended March 31, 2024, operation and maintenance expense increased $21 million, primarily due to increased production costs from higher purchased water usage and increased fuel, power and chemicals costs. In addition, operation and maintenance expense was higher due to increased employee related costs, primarily from annual merit increases.

Depreciation and Amortization

For the three months ended March 31, 2024, depreciation and amortization increased $15 million, primarily due to additional utility plant placed in service from capital infrastructure investments.

Other Expenses

For the three months ended March 31, 2024, other expenses increased $11 million, primarily due to higher interest expense from the issuance of incremental long-term debt in June 2023 and February 2024, as well as a decrease in allowance for funds used during construction in the current period. These increases were partially offset by a decrease in interest expense as a result of lower average commercial paper borrowings.

Provision for Income Taxes

For the three months ended March 31, 2024, the Regulated Businesses' provision for income taxes increased $7 million. The Regulated Businesses' effective income tax rate was 22.3% and 20.9% for the three months ended March 31, 2024 and 2023, respectively. The increase was primarily due to the decrease in the amortization of EADIT pursuant to regulatory orders.

Other

Presented in the table below is information for Other:

	For the Three Months Ended March 31,	
(In millions)	2024	2023
Operating revenues	$ 83	$ 78
Operation and maintenance	65	63
Depreciation and amortization	4	3
General taxes	5	5
Interest expense	(27)	(28)
Interest income	21	13
Other income	1	2
Provision (benefit) for income taxes	4	(2)
Net income (loss) attributable to common shareholders	$ —	$ (4)

Operating Revenues

For the three months ended March 31, 2024, operating revenues increased $5 million, from an increase in capital projects in MSG, primarily at Naval Station Mayport. The Naval Station Mayport contract was awarded on June 30, 2022, with the performance start date for operation on March 1, 2023.

Operation and Maintenance

For the three months ended March 31, 2024, operation and maintenance expense increased $2 million, primarily due to costs associated with the increased capital projects in MSG.

Interest income

For the three months ended March 31, 2024, interest income increased $8 million, primarily due to the increased interest rate on the amended secured seller promissory note from the sale of HOS. See Note 5—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements for additional information.

Legislative Updates

During 2024, the Company’s regulatory jurisdictions enacted the following legislation that has been approved and is effective as of May 1, 2024:

- New Jersey passed Assembly Bill 4791, establishing the “Resiliency and Environmental System Investment Charge Program,” which creates a regulatory mechanism that enables water and wastewater utilities to recover the costs of investment in certain non-revenue producing utility system components that enhance water and wastewater system resiliency, environmental compliance such as existing and proposed requirements for PFAS, safety, and public health. Legislation was signed by the Governor and became effective on January 12, 2024.
- Indiana passed Senate Bill 5, which provides access to a property by a water utility to replace lead service lines when a landowner does not enroll in the offered lead service line replacement program, does not personally replace the customer owned portion of the lead service line following notice and a 45-day waiting period, or is non-responsive to attempted communication after the 45-day waiting period. Legislation was signed by the Governor and became effective on March 11, 2024.

During 2024, the Company’s regulatory jurisdictions enacted the following legislation that has been approved but is not yet effective as of May 1, 2024:

- Iowa passed House File 2101, which increases the threshold amount required for approval by the Iowa Utilities Board for water and wastewater utility acquisition filings from $0.5 million to $3 million. Legislation was signed by the Governor on April 10, 2024 and will become effective on July 1, 2024.
- Indiana passed Senate Bill 247, which establishes a 30-day filing with the IURC by a utility for an acquisition of utilities, with an appraised value and purchase price of less than $3 million under the offered utility statute. Legislation was signed by the Governor on March 11, 2024, and will become effective on July 1, 2024.

- West Virginia passed House Bill 5617, which adopts standards and authorizes the Public Service Commission to promulgate rules for maintenance, flushing, flow testing, and marking of fire hydrants owned by water utilities. Also allows for rate recovery. Legislation was signed by the Governor on March 20, 2024, and will become effective on June 4, 2024.

Condemnation and Eminent Domain

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

As such, the Regulated Businesses are periodically subject to condemnation proceedings in the ordinary course of business. For example, the Monterey water service system assets (the "Monterey system assets") of the Company's California subsidiary ("Cal Am") are the subject of a potential condemnation action by the Monterey Peninsula Water Management District (the "MPWMD") stemming from a November 2018 public ballot initiative. For more information on this matter, see Part II, Item 1—Legal Proceedings—Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action and Note 11—Commitments and Contingencies in the Notes to Consolidated Financial Statements.

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

Tax Matters

On August 16, 2022, the Inflation Reduction Act of 2022 (the "IRA") was signed into law. The IRA contains a 15% Corporate Alternative Minimum Tax ("CAMT") provision on applicable corporations effective January 1, 2023. To determine if a company is considered an applicable corporation subject to CAMT, the company's average adjusted financial statement income ("AFSI") for the three consecutive years preceding the tax year must exceed $1 billion. An applicable corporation must make several adjustments to net income when determining AFSI. A corporation paying CAMT is eligible for a future tax credit, which can be utilized when regular tax exceeds CAMT. Based on current guidance, the Company is an applicable corporation subject to CAMT beginning in 2024 and expects to owe CAMT in excess of the regular tax liability. In the absence of an extension of the Internal Revenue Service ("IRS") and the U.S. Treasury Notice 2023-42 (which provides relief of penalties related to the 2023 estimated tax payments associated with the CAMT liability), the Company will begin including the CAMT liability with its estimated cash payments in 2024. The Company will continue to evaluate the impacts of the IRA as the U.S. Treasury and the IRS issue additional guidance.

Liquidity and Capital Resources

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

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

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

On February 23, 2024, AWCC completed a $1.4 billion debt offering, which included the sale of $700 million aggregate principal amount of its 5.150% senior notes due 2034 and $700 million aggregate principal amount of its 5.450% senior notes due 2054. At the closing of this offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately $1,381 million. AWCC is using the net proceeds of the offering (1) to lend funds to American Water and the Regulated Businesses; (2) to repay at maturity AWCC's 3.850% Senior Notes due 2024; (3) to repay AWCC's commercial paper obligations; and (4) for general corporate purposes.

AWCC's revolving credit facility provides $2.75 billion in aggregate total commitments from a diversified group of financial institutions. The revolving credit facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support, and to provide a sub limit for the issuance of up to $150 million in letters of credit. The maximum aggregate principal amount of short-term borrowings authorized for issuance under AWCC's commercial paper program is $2.60 billion. The termination date of the credit agreement with respect to AWCC's revolving credit facility is October 26, 2028. and permits AWCC to increase the maximum commitment by up to an aggregate of $500 million and to request extensions of its expiration date for up to two one-year periods, as to which one such extension request remains. As of March 31, 2024 and December 31, 2023, there were no borrowings under the revolving credit facility. As of March 31, 2024 and December 31, 2023, there were $75 million of outstanding letters of credit under its revolving credit facility. At March 31, 2024, there was no outstanding short-term debt as the net proceeds of the debt offering on February 23, 2024, were used to repay the outstanding short-term commercial paper obligations. At December 31, 2023, there was $180 million, or net of discount $179 million of outstanding short-term debt and the weighted-average interest rate on AWCC's outstanding short-term borrowings was approximately 5.51%.

Presented in the tables below is the aggregate credit facility commitments, commercial paper limit and letter of credit availability under the revolving credit facility as of March 31, 2024 and December 31, 2023, as well as the available capacity for each:

	As of March 31, 2024		
(In millions)	**Commercial Paper Limit**	**Letters of Credit**	**Total (a)**
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	—	(75)	(75)
Remaining availability as of March 31, 2024	$ 2,600	$ 75	$ 2,675

(a) Total remaining availability of $2.68 billion as of March 31, 2024, was accessible through revolver draws.

	As of December 31, 2023		
(In millions)	**Commercial Paper Limit**	**Letters of Credit**	**Total (a)**
Total availability	$ 2,600	$ 150	$ 2,750
Outstanding debt	(180)	(75)	(255)
Remaining availability as of December 31, 2023	$ 2,420	$ 75	$ 2,495

(a) Total remaining availability of $2.50 billion as of December 31, 2023, was accessible through revolver draws.

Presented in the table below is the Company's total available liquidity as of March 31, 2024 and December 31, 2023, respectively:

(In millions)	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of March 31, 2024	$ 584	$ 2,675	$ 3,259
Available liquidity as of December 31, 2023	$ 330	$ 2,495	$ 2,825

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.

The Company had entered into 15 treasury lock agreements through February 2024, with notional amounts totaling $825 million. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. In February 2024, the Company terminated the treasury lock agreements realizing a pre-tax net gain of $14 million, to be amortized through Interest expense over a 10-year period or 30-year period, in accordance with the tenor of the notes issued on February 23, 2024.

No ineffectiveness was recognized on hedging instruments for the three months ended March 31, 2024 or 2023.

Cash Flows from Operating Activities

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

	For the Three Months Ended March 31,	
	2024	**2023**
(In millions)		
Net income	$ 185	$ 170
Add (less):		
Depreciation and amortization	188	172
Deferred income taxes and amortization of investment tax credits	8	26
Other non-cash activities (a)	9	(32)
Changes in working capital (b)	3	(41)
Pension contributions	(11)	(10)
Net cash provided by operating activities	$ 382	$ 285

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

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

For the three months ended March 31, 2024, cash provided by operating activities increased $97 million, due to changes in working capital, which is mainly due to the utilization of an income tax receivable for the current year tax liability, as well as an increase to net income and other non-cash activities.

Cash Flows from Investing Activities

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

(In millions)	For the Three Months Ended March 31, 2024	2023
Net capital expenditures	$ (609)	$ (526)
Acquisitions, net of cash acquired	(86)	(4)
Other investing activities, net (a)	(38)	(31)
Net cash used in investing activities	$ (733)	$ (561)

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

For the three months ended March 31, 2024, cash used in investing activities increased $172 million, primarily due to increased payments for capital expenditures and acquisitions.

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 Three Months Ended March 31, 2024	For the Three Months Ended March 31, 2023
Proceeds from long-term debt	$ 1,391	$ 8
Repayments of long-term debt	(449)	(4)
Net proceeds from common stock financing	—	1,688
Net short-term repayments with maturities less than three months	(179)	(1,175)
Debt issuance costs and make-whole premium on early debt redemption	(14)	—
Dividends paid	(138)	(119)
Other financing activities, net (a)	2	3
Net cash provided by financing activities	$ 613	$ 401

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

For the three months ended March 31, 2024, cash provided by financing activities increased $212 million, primarily due to the issuance of long-term debt in February 2024 and lower repayments of short-term commercial paper borrowings compared to the prior period. This was partially offset by the repayment of long-term debt in the current period and the proceeds from the common stock financing in March 2023.

Debt Covenants

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

Covenants in certain long-term notes and the revolving credit facility require the Company to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. On March 31, 2024, the Company’s ratio was 0.57 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 May 1, 2024, as issued by Moody's Investors Service on January 29, 2024, and S&P Global Ratings on March 4, 2024:

Securities	Moody's Investors Service	S&P Global Ratings
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. The Company does not have any material borrowings that 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, power and other fuel, chemicals and other services. These contracts either contain express provisions or otherwise permit the Company and its counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if the Company is downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that the Company must provide collateral to secure its obligations. The Company does not expect to post any collateral which will have a material adverse impact on the Company’s results of operations, financial position or cash flows.

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

Dividends

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

Application of Critical Accounting Policies and Estimates

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

Recent Accounting Standards

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk in the normal course of business, including changes in commodity prices, equity prices and interest rates. For further discussion of its exposure to market risk, see Part II, Item 7A—Quantitative and Qualitative Disclosures about Market Risk in the Company’s Form 10-K. As of March 31, 2024, there were no treasury lock agreements outstanding as the Company terminated the treasury lock agreements in

February 2024. There have been no other significant changes to the Company’s exposure to market risk since December 31, 2023.

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 March 31, 2024.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of March 31, 2024, 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 March 31, 2024, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

Alternative Water Supply in Lieu of Carmel River Diversions

Monterey Peninsula Water Supply Project

Water Supply Project Land Acquisition and Slant Well Site Use

The July 15, 2024 trial date previously set by the Monterey County Superior Court for the City’s May 2020 lawsuit has been vacated pending receipt of the SWRCB’s expert advisory opinion. The court scheduled a status and trial setting conference for July 15, 2024.

Challenges Related to Compliance with California’s Sustainable Groundwater Management Act

In November 2021, the City appealed the court’s decision denying the City’s claims, and in December 2021, Monterey County appealed as to the court’s finding that the City’s action creating a GSA was not void. The related validation and reverse validation actions remain stayed during the pendency of the appeal. On November 13, 2023, the California Court of Appeal affirmed the trial court's decision. On December 22, 2023, the City filed a petition for review with the California Supreme Court, which was denied on February 14, 2024.

Cal Am’s Action for Damages Following Termination of Regional Desalination Project (“RDP”)

In 2010, the CPUC had approved the RDP, which was a precursor to the current Water Supply Project and called for the construction of a desalination facility in the City of Marina. The RDP was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the “Agreements”) among MCWD, Cal Am and the Monterey County Water Resources Agency (“MCWRA”). In 2011, due to a conflict of interest concerning a former member of MCWRA’s Board of Directors, MCWRA stated that the Agreements were void, and, as a result, Cal Am terminated the Agreements. In ensuing litigation filed by Cal Am in 2012 to resolve the termination of the RDP, the court in 2015 entered a final judgment agreeing with Cal Am’s position that four of the five Agreements are void, and one, the credit line agreement, is not void. As a result of this litigation, Cal Am was permitted to institute further proceedings, discussed below, to determine the amount of damages that may be awarded to Cal Am as a result of the failure of the RDP.

In 2015, Cal Am and MCWRA filed a complaint in San Francisco County Superior Court against MCWD and RMC Water and Environment, a private engineering consulting firm (“RMC”), seeking to recover compensatory, consequential and incidental damages associated with the failure of the RDP, as well as punitive and treble damages, statutory penalties and attorneys’ fees. In 2019, MCWD was granted a motion for summary judgment related to the tort claims in the complaint. A settlement as to the non-tort claims was finalized and entered into in March 2020, in which MCWD and RMC paid Cal Am an aggregate of $5.2 million to resolve Cal Am’s contract claims against MCWD and all claims against RMC relating to the RDP. Under this agreement, Cal Am’s and MCWRA’s right to appeal the dismissal of their tort claims against MCWD were expressly reserved.

In July 2020, Cal Am appealed the grant of summary judgment on MCWD’s tort claims, and in December 2022, the trial court’s decision was reversed with instructions to vacate its prior orders granting MCWD’s motions for summary judgment and to enter new orders denying the motions. In February 2023, MCWD filed a petition for review of the appellate decision with the California Supreme Court, which was denied in March 2023. The trial court’s prior trial date of May 6, 2024, for Cal Am’s remaining tort claims against MCWD, has been vacated, and a new trial date will be set for later in the year.

Proposed Acquisition of Monterey System Assets — MPWMD Condemnation Action

Local Agency Formation Commission Litigation

On February 8, 2024, and February 9, 2024, respectively, Cal Am and LAFCO each filed a notice of appeal with the California Court of Appeals regarding the Monterey County Superior Court’s decision to issue the writ of mandate. The MPWMD filed a notice of cross-appeal on February 15, 2024.

MPWMD Condemnation Action

On February 26, 2024, Cal Am filed a motion requesting the Monterey County Superior Court dismiss the MPWMD’s eminent domain lawsuit seeking to condemn Cal Am’s Monterey system assets. Cal Am’s motion asserts that the MPWMD lacks legal authorization from both the California legislature and LAFCO to become a retail water provider and the lawsuit improperly seeks to effect a taking of property outside the boundaries of the MPWMD’s territory. The motion is scheduled for a hearing on May 3, 2024.

Chattanooga, Tennessee Class Action Litigation

On January 18, 2024, and April 19, 2024, the court heard oral argument on the motions related to the Tennessee Plaintiffs’ motion for an amended class definition. On April 19, 2024, the court provided an oral ruling denying the amended class and incorporating its denial of the original class. A written order will be drafted, and when entered, the Tennessee Plaintiffs will have a right under state law to appeal the denial of class certification.

Mountaineer Gas Company Main Break

On November 17, 2023, the Ruffin plaintiff filed a motion to consolidate the first three lawsuits before a single judge in Kanawha County Circuit Court. The motion was granted orally but no written order has yet been entered.

On March 6, 2024, the motion to transfer the complaint captioned Mountaineer Gas Company v. West Virginia-American Water Company to the West Virginia Business Court was granted and assigned trial and resolution judges. WVAWC’s partial motion to dismiss this lawsuit remains pending.

On February 19, 2024, Mountaineer Gas filed a motion opposing the referral of the four class action complaints and the Mountaineer Gas complaint to the West Virginia Mass Litigation Panel. On March 28, 2024, the Kanawha County Circuit Court trial judge filed a memorandum opposing the referral. The referral motion remains pending with the Chief Justice of the West Virginia Supreme Court.

On December 6, 2023, WVAWC initiated a process whereby Mountaineer Gas customers could file claims with WVAWC and seek payment from WVAWC of up to $2,000 per affected household for the inconvenience arising from a loss of use of their applicances and documented out-of-pocket expenses as a result of the natural gas outage. In light of the diminishing number of new claims being filed, the claims process was concluded on March 8, 2024. As of March 31, 2024, a total of 557 Mountaineer Gas customers completed the claims process, with another 87 claims pending completion, and the completed claimants were paid by WVAWC an average of approximately $1,500 each. In return, these customers were required to execute a partial release of liability in favor of WVAWC.

On March 1, 2024, the staff of the WVPSC issued an initial memorandum in each separate general investigation for Mountaineer Gas and WVAWC. On April 24, 2024, the staff issued a final joint memorandum in the Mountaineer Gas general investigation stating its view that Mountaineer Gas responded appropriately, reasonably and according to Mountaineer Gas’s written procedures. The staff is making no recommendations for improvements to Mountaineer Gas and is recommending that the Mountaineer Gas general investigation be closed. Both general investigations remain pending, and the due date for the staff memorandum in the WVAWC general investigation is July 24, 2024.

PFAS Multi-District Litigation

On February 8, 2024, after a hearing on December 14, 2023, the MDL court issued its final approval of the DuPont settlement. A fairness hearing on the 3M settlement was held on February 2, 2024, and that settlement was approved by the MDL court on March 29, 2024. The Company has begun the process of perfecting its claims under each settlement within the time periods provided by the MDL court. On April 26, 2024, a potential class action settlement involving defendant Tyco Fire Products LP was filed with the MDL court to resolve claims brought in the MDL against this defendant by public water systems. This potential settlement remains subject to preliminary and final approval of the MDL court. The MDL matter remains pending.

ITEM 1A. RISK FACTORS

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

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

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

The Company did not repurchase shares of common stock during the three months ended March 31, 2024. From April 1, 2015, the date repurchases under the anti-dilutive stock repurchase program commenced, through March 31, 2024, 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

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
2.1#	Membership Interest Purchase Agreement, dated as of October 28, 2021, by and among American Water Enterprises, LLC, American Water (USA), LLC, American Water Resources, LLC, Pivotal Home Solutions, LLC, American Water Resources Holdings, LLC, American Water Works Company, Inc. and Lakehouse Buyer Inc. (incorporated by reference to Exhibit 2.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed October 29, 2021).
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, File No. 001-34028, filed December 8, 2022).
4.1	Indenture, dated as of December 4, 2009, between American Water Capital Corp. and Computershare Trust Company, N.A., as successor to 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 February 23, 2024, establishing the 5.150% Senior Notes due 2034 (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 February 23, 2024).
4.3	Officers' Certificate of American Water Capital Corp., dated February 23, 2024, establishing the 5.450% Senior Notes due 2054 (incorporated by reference to Exhibit 4.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 23, 2024).
*10.1	Form of American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Restricted Stock Unit Grant.
*10.2	Form of American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Restricted Stock Unit Grant (for CEO, CFO and COO).
*10.3	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form A-1.
*10.4	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form A-2 (for CEO, CFO and COO).

Exhibit Number	Exhibit Description
*10.5	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form B-1.
*10.6	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form B-2 (for CEO, CFO and COO).
*10.7	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form C-1.
*10.8	American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2024 Performance Stock Unit Grant Form C-2 (for CEO, CFO and COO).
10.9#	Amendment No. 1 to Secured Seller Note Agreement, dated as of February 2, 2024, by and among Lakehouse Bidco Inc., Lakehouse Buyer Inc., American Water Resources, LLC, Pivotal Home Solutions, LLC, American Water Resources Holdings, LLC, American Water Resources of Texas, LLC, American Water Resources of Florida, LLC, and American Water Enterprises, LLC (incorporated by reference to Exhibit 10.1.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed February 5, 2024).
*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).

Certain schedules and exhibits to this agreement have been omitted as permitted by rules or regulations of the SEC. The Company will furnish the omitted schedules and exhibits to the SEC upon request.

* Filed herewith.

** Furnished herewith.

The Membership Interest Purchase Agreement filed as Exhibit 2.1 and the Amendment to Secured Seller Note Agreement filed as Exhibit 10.9 to this Quarterly Report on Form 10-Q have been included to provide investors and security holders with information regarding the terms of the respective agreements. The filing of these agreements is not intended to provide any other factual information about the parties thereto, or any of their respective subsidiaries or affiliates. The representations, warranties and covenants contained in the respective agreements (i) were made by the parties thereto only for purposes of that respective agreement and as of specific dates; (ii) were made solely for the benefit of the parties to the respective agreement; (iii) may be subject to limitations agreed upon by the contracting parties, including being qualified by confidential disclosures exchanged between the parties in connection with the execution of the respective agreement (such disclosures include information that has been included in public disclosures, as well as additional non-public information); (iv) may have been made for the purposes of allocating contractual risk between the parties to the respective agreements instead of establishing these matters as facts; and (v) may be subject to standards of materiality applicable to the contracting parties to the respective agreements that differ from those applicable to investors.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 1st day of May, 2024.

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