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

	For the Years Ended December 31,		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 944	$ 820	$ 1,263
Adjustments to reconcile to net cash flows provided by operating activities:			
Depreciation and amortization	704	649	636
Deferred income taxes and amortization of investment tax credits	208	80	230
Provision for losses on accounts receivable	24	24	37
Gain on sale of businesses	—	(19)	(747)
Pension and non-pension postretirement benefits	(6)	(47)	(41)
Other non-cash, net	(27)	7	(23)
Changes in assets and liabilities:			
Receivables and unbilled revenues	(56)	(114)	(74)
Income tax receivable	28	(110)	21
Pension and non-pension postretirement benefit contributions	(49)	(51)	(40)
Accounts payable and accrued liabilities	70	(8)	66
Accrued taxes	21	(118)	129
Other assets and liabilities, net	13	(5)	(16)
Net cash provided by operating activities	1,874	1,108	1,441
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(2,575)	(2,297)	(1,764)
Acquisitions, net of cash acquired	(81)	(315)	(135)
Proceeds from sale of assets, net of cash on hand	—	608	472
Removal costs from property, plant and equipment retirements, net	(159)	(123)	(109)
Net cash used in investing activities	(2,815)	(2,127)	(1,536)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	1,264	822	1,118
Repayments of long-term debt	(282)	(15)	(372)
(Repayments of) proceeds from term loan	—	—	(500)
Net proceeds from common stock financing	1,688	—	—
Net short-term (repayments) borrowings with maturities less than three months	(996)	591	(198)
Advances and contributions in aid of construction, net of refunds of $25, $19 and $25 in 2023, 2022 and 2021, respectively	60	74	62
Debt issuance costs and make-whole premium on early debt redemption	(16)	(7)	(26)
Dividends paid	(532)	(467)	(428)
Other, net	2	2	(1)
Net cash provided by (used in) financing activities	1,188	1,000	(345)
Net (decrease) increase in cash, cash equivalents and restricted funds	247	(19)	(440)
Cash, cash equivalents and restricted funds at beginning of period	117	136	576
Cash, cash equivalents and restricted funds at end of period	$ 364	$ 117	$ 136
Cash paid during the year for:			
Interest, net of capitalized amount	$ 445	$ 414	$ 389
Income taxes, net of refunds of $30, $2 and $6 in 2023, 2022 and 2021, respectively	$ —	$ 335	$ 1
Non-cash investing activity:			
Capital expenditures acquired on account but unpaid as of year end	$ 399	$ 330	$ 292
Seller promissory note from the sale of the Homeowner Services Group	$ —	$ —	$ 720
Contingent cash payment from the sale of the Homeowner Services Group	$ —	$ —	$ 75

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
(In millions, except per share data)

	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, 2020	186.5	$ 2	$ 6,747	$ 102	$ (49)	(5.2)	$ (348)	$ 6,454
Net income attributable to common shareholders	—	—	—	1,263	—	—	—	1,263
Common stock issuances (a)	0.4	—	34	—	—	(0.1)	(17)	17
Net other comprehensive income	—	—	—	—	4	—	—	4
Dividends ($2.41 declared per common share)	—	—	—	(440)	—	—	—	(440)
Balance as of December 31, 2021	186.9	$ 2	$ 6,781	$ 925	$ (45)	(5.3)	$ (365)	$ 7,298
Net income attributable to common shareholders	—	—	—	820	—	—	—	820
Common stock issuances (a)	0.5	—	43	—	—	(0.1)	(12)	31
Net other comprehensive income	—	—	—	—	22	—	—	22
Dividends ($2.62 declared per common share)	—	—	—	(478)	—	—	—	(478)
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	—	—	—	944	—	—	—	944
Common stock issuances (a)	12.7	—	1,726	—	—	(0.1)	(11)	1,715
Net other comprehensive loss	—	—	—	—	(3)	—	—	(3)
Dividends ($2.83 declared per common share)	—	—	—	(552)	—	—	—	(552)
Balance as of December 31, 2023	200.1	$ 2	$ 8,550	$ 1,659	$ (26)	(5.5)	$ (388)	$ 9,797

(a) Includes stock-based compensation, employee stock purchase plan and direct stock 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
(Unless otherwise noted, in millions, except per share data)

Note 1: Organization and Operation

American Water Works Company, Inc. (the "Company" or "American Water") is a holding company for subsidiaries that provide water and wastewater services throughout the United States. References to "parent company" mean American Water Works Company, Inc., without its subsidiaries. The Company's primary business involves the ownership of regulated utilities that provide water and wastewater services in 14 states in the United States, collectively referred to 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. These other businesses do not meet the criteria of a reportable segment in accordance with generally accepted accounting principles in the United States ("GAAP"), and are collectively presented throughout this Annual Report on Form 10-K within "Other."

Note 2: Significant Accounting Policies

Regulation

The Company's regulated 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"). As such, the Company follows authoritative accounting principles required for rate regulated utilities, which requires the effects of rate regulation to be reflected in the Company's Consolidated Financial Statements. PUCs generally authorize revenue at levels intended to recover the estimated costs of providing service, plus a return on net investments, or rate base. Regulators may also approve accounting treatments, long-term financing programs and cost of capital, operation and maintenance ("O&M") expenses, capital expenditures, taxes, affiliated transactions and relationships, reorganizations, mergers, acquisitions and dispositions, along with imposing certain penalties or granting certain incentives. Due to timing and other differences in the collection of a regulated utility's revenues, these authoritative accounting principles allow a cost that would otherwise be charged as an expense by a non-regulated entity, to be deferred as a regulatory asset if it is probable that such cost is recoverable through future rates. Conversely, these principles also require the creation of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future, or amounts collected in excess of costs incurred and are refundable to customers. See Note 3—Regulatory Matters for additional information.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires that management make estimates, assumptions and judgments that could affect the Company's financial condition, results of operations and cash flows. Actual results could differ from these estimates, assumptions and judgments. The Company considers its critical accounting estimates to include (i) the application of regulatory accounting principles and the related determination and estimation of regulatory assets and liabilities, (ii) revenue recognition and the estimates used in the calculation of unbilled revenue, (iii) accounting for income taxes, (iv) benefit plan assumptions and (v) the estimates and judgments used in determining loss contingencies. The Company's critical accounting estimates that are particularly sensitive to change in the near term are amounts reported for regulatory assets and liabilities, income taxes, benefit plan assumptions and contingency-related obligations.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of American Water and all of its subsidiaries in which a controlling interest is maintained after the elimination of intercompany balances and transactions.

Property, Plant and Equipment

Property, plant and equipment consists primarily of utility plant utilized by the Company's regulated utilities. Additions to utility plant and replacement of retirement units of utility plant are capitalized and include costs such as materials, direct labor, payroll taxes and benefits, indirect items such as engineering and supervision, transportation and an allowance for funds used during construction ("AFUDC"). Costs for repair, maintenance and minor replacements are charged to O&M expense as incurred.

The cost of utility plant is depreciated using the straight-line average remaining life, group method. The Company's regulated utilities record depreciation in conformity with amounts approved by PUCs, after regulatory review of the information the Company submits to support its estimates of the assets' remaining useful lives.

Nonutility property consists primarily of buildings and equipment utilized by the Military Services Group ("MSG") and for internal operations. This property is stated at cost, net of accumulated depreciation, which is calculated using the straight-line method over the useful lives of the assets.

When units of property, plant and equipment are replaced, retired or abandoned, the carrying value is credited against the asset and charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates, until the costs to retire those assets are incurred.

The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. The carrying value of these costs, net of amortization, amounted to $419 million and $369 million as of December 31, 2023 and 2022, respectively.

Cash and Cash Equivalents, and Restricted Funds

Substantially all cash is invested in interest-bearing accounts. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Restricted funds consist primarily of proceeds from financings for the construction and capital improvement of facilities, and deposits for future services under O&M projects. Proceeds are held in escrow or interest-bearing accounts until the designated expenditures are incurred. Restricted funds are classified on the Consolidated Balance Sheets as either current or long-term based upon the intended use of the funds.

Accounts Receivable and Unbilled Revenues

Accounts receivable include regulated utility customer accounts receivable, which represent amounts billed to water and wastewater customers generally on a monthly basis. Credit is extended based on the guidelines of the applicable PUCs and collateral is generally not required. Also included are the trade accounts receivable of other businesses, primarily MSG, and nonutility customer receivables of the regulated subsidiaries. Unbilled revenues are accrued when service has been provided but has not been billed to customers and when costs exceed billings on certain construction contracts.

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. See Note 7—Allowance for Uncollectible Accounts for additional information.

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the average cost method.

Seller Promissory Note

The Company's secured seller promissory note is accounted for under Accounting Standards Codification ("ASC") Topic 310, *Receivables*, and is classified as held for investment and accounted for at amortized cost at the present value of consideration received for the sale of its Homeowner Services Group ("HOS") business. Interest income from the secured seller promissory note is accrued based on the principal amount outstanding and earned over the contractual life of the loan.

Leases

The Company has operating and finance leases involving real property, including facilities, utility assets, vehicles, and equipment. The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, accrued liabilities and operating lease liabilities on the Consolidated Balance Sheets. Finance leases are included in property, plant and equipment, accrued liabilities and other long-term liabilities on the Consolidated Balance Sheets. The Company has made an accounting policy election not to include operating leases with a lease term of twelve months or less.

ROU assets represent the right to use an underlying asset for the lease term and the lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are generally recognized at the commencement date based on the present value of discounted lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of discounted lease payments. The implicit rate is used when readily determinable. ROU assets also include any upfront lease payments and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) and non-lease components (e.g., common-area maintenance costs), which are generally accounted for separately; however, the Company accounts for the lease and non-lease components as a single lease component for certain leases. Certain lease agreements include variable rental payments adjusted periodically for inflation. Additionally, the Company applies a portfolio approach to effectively account for the ROU assets and lease liabilities. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Goodwill

Goodwill represents the excess of the purchase price paid over the estimated fair value of the assets acquired and liabilities assumed in the acquisition of a business. Goodwill is not amortized and must be allocated at the reporting unit level, which is defined as an operating segment or one level below, and tested for impairment at least annually, or more frequently if an event occurs or circumstances change that would more likely than not, reduce the fair value of a reporting unit below its carrying value.

The Company's goodwill is primarily associated with the acquisition of American Water by an affiliate of the Company's previous owner in 2003 and has been allocated to reporting units based on the fair values at the date of the acquisitions. For purposes of testing goodwill for impairment, the reporting units in the Regulated Businesses segment are aggregated into a single reporting unit. The goodwill of Other is attributable to the MSG reporting unit.

The Company's annual impairment testing is performed as of November 30 of each year. The Company assesses qualitative factors to determine whether quantitative testing is necessary. If it is determined, based upon qualitative factors, that the estimated fair value of a reporting unit is, more likely than not, greater than its carrying value, no further testing is required. If the Company bypasses the qualitative assessment or performs the qualitative assessment and determines that the estimated fair value of a reporting unit, is more likely than not, less than its carrying value, a quantitative, fair value-based assessment is performed. This quantitative testing compares the estimated fair value of the reporting unit to its respective net carrying value, including goodwill, on the measurement date. An impairment loss will be recognized in the amount equal to the excess of the reporting unit's carrying value compared to its estimated fair value, limited to the total amount of goodwill allocated to that reporting unit.

Application of goodwill impairment testing requires management judgment, including the identification of reporting units and determining the fair value of reporting units. Management estimates fair value using a discounted cash flow analysis. Significant assumptions used in these fair value estimations include, but are not limited to, forecasts of future operating results, discount rate and growth rate.

The Company believes the assumptions and other considerations used to value goodwill to be appropriate, however, if actual experience differs from the assumptions and considerations used in its analysis, the resulting change could have a material adverse impact on the Consolidated Financial Statements. See Note 8—Goodwill for additional information.

Impairment of Long-Lived Assets

Long-lived assets, other than goodwill, primarily include property, plant and equipment. The Company evaluates long-lived assets for impairment when circumstances indicate the carrying value of those assets may not be recoverable. The Company determines if long-lived assets are potentially impaired by comparing the undiscounted expected future cash flows to the carrying value when indicators of impairment exist. When the undiscounted cash flow analysis indicates a long-lived asset may not be recoverable, the amount of the impairment loss is determined by measuring the excess of the carrying amount of the long-lived asset or asset group over its fair value.

The long-lived assets of the Company's regulated utilities are grouped on a separate entity basis for impairment testing, as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

The Company believes the assumptions and other considerations used to value long-lived assets to be appropriate, however, if actual experience differs from the assumptions and considerations used in its estimates, the resulting change could have a material adverse impact on the Consolidated Financial Statements.

Advances for Construction and Contributions in Aid of Construction

Regulated utility subsidiaries may receive advances for construction and contributions in aid of construction from customers, home builders and real estate developers to fund construction necessary to extend service to new areas.

Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Included in other current liabilities as of December 31, 2023 and 2022, on the Consolidated Balance Sheets are estimated refunds of $18 million and $19 million, respectively. These amounts represent expected refunds during the next 12-month period.

Advances that are no longer refundable are reclassified to contributions in aid of construction. Contributions in aid of construction are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since the contributions represent non-investor supplied funds.

Generally, the Company depreciates utility plant funded by contributions and amortizes its contributions in aid of construction balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. In accordance with applicable regulatory guidelines, some of the Company’s utility subsidiaries do not amortize contributions in aid of construction, and any contribution received remains on the balance sheet indefinitely. Amortization of contributions in aid of construction was $40 million, $37 million and $36 million for the years ended December 31, 2023, 2022 and 2021, respectively.

Revenue Recognition

Under ASC Topic 606, *Revenue From Contracts With Customers,* and all related amendments (collectively, “ASC 606”), a performance obligation is a promise within a contract to transfer a distinct good or service, or a series of distinct goods and services, to a customer. Revenue is recognized when performance obligations are satisfied and the customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for goods or services. Under ASC 606, a contract’s transaction price is allocated to each distinct performance obligation. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identifies the contracts with a customer; (ii) identifies the performance obligations within the contract, including whether any performance obligations are distinct and capable of being distinct in the context of the contract; (iii) determines the transaction price; (iv) allocates the transaction price to the performance obligations in the contract; and (v) recognizes revenue when, or as, the Company satisfies each performance obligation.

The Company’s revenues from contracts with customers are discussed below. Customer payments for contracts are generally due within 30 days of billing and none of the contracts with customers have payment terms that exceed one year; therefore, the Company elected to apply the significant financing component practical expedient and no amount of consideration has been allocated as a financing component.

Regulated Businesses Revenue

Revenue from the Company’s Regulated Businesses is generated primarily from water and wastewater services delivered to customers. These contracts contain a single performance obligation, the delivery of water and/or wastewater services, as the promise to transfer the individual good or service is not separately identifiable from other promises within the contracts and, therefore, is not distinct. Revenues are recognized over time, as services are provided. There are generally no significant financing components or variable consideration. Revenues include amounts billed to customers on a cycle basis and unbilled amounts calculated based on estimated usage from the date of the meter reading associated with the latest customer bill, to the end of the accounting period. The amounts that the Company has a right to invoice are determined by each customer’s actual usage, an indicator that the invoice amount corresponds directly to the value transferred to the customer. The Company also recognizes revenue when it is probable that future recovery of previously incurred costs or future refunds that are to be credited to customers will occur through the ratemaking process.

Other Revenue

The Company has long-term, fixed fee contracts to operate and maintain water and wastewater systems for the U.S. government on military installations and facilities owned by municipal customers. Billing and revenue recognition for the fixed fee revenues occurs ratably over the term of the contract, as customers simultaneously receive and consume the benefits provided by the Company. Additionally, these contracts allow the Company to make capital improvements to underlying infrastructure, which are initiated through separate modifications or amendments to the original contract, whereby stand-alone, fixed pricing is separately stated for each improvement. The Company has determined that these capital improvements are separate performance obligations, with revenue recognized over time based on performance completed at the end of each reporting period. Losses on contracts are recognized during the period in which the losses first become probable and estimable. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenues, with billings in excess of revenues recorded as other current liabilities until the recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined. See Note 4—Revenue Recognition for additional information.

Prior to December 9, 2021, through various warranty protection programs and other home services, the Company previously provided fixed fee services to residential customers for interior and exterior water and sewer lines, interior electric and gas lines, heating and cooling systems, water heaters and other home appliances, as well as power surge protection and other related services through its former HOS business. Most of the contracts had a one-year term and each service was a separate performance obligation, satisfied over time, as the customers simultaneously received and consumed the benefits provided from the service. Customers were obligated to pay for the protection programs ratably over 12 months or via a one-time, annual fee, with revenues recognized ratably over time for those services. Advances from customers were deferred until the performance obligation was satisfied.

Income Taxes

The Company and its subsidiaries participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. The Company provides deferred income taxes on the difference between the tax basis of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when these temporary differences are projected to reverse. In addition, the regulated utility subsidiaries recognize regulatory assets and liabilities for the effect on revenues expected to be realized as the tax effects of temporary differences, previously flowed through to customers, reverse.

Investment tax credits have been deferred by the regulated utility subsidiaries and are being amortized to income over the average estimated service lives of the related assets.

The Company recognizes accrued interest and penalties related to tax positions as a component of income tax expense and accounts for sales tax collected from customers and remitted to taxing authorities on a net basis. See Note 14—Income Taxes for additional information.

Allowance for Funds Used During Construction

AFUDC is a non-cash credit to income with a corresponding charge to utility plant that represents the cost of borrowed funds or a return on equity funds devoted to plant under construction. The regulated utility subsidiaries record AFUDC to the extent permitted by the PUCs. The portion of AFUDC attributable to borrowed funds is shown as a reduction of interest, net on the Consolidated Statements of Operations. Any portion of AFUDC attributable to equity funds would be included in other, net on the Consolidated Statements of Operations. Presented in the table below is AFUDC for the years ended December 31:

	2023	2022	2021
Allowance for other funds used during construction	$ 41	$ 20	$ 27
Allowance for borrowed funds used during construction	24	14	10

Derivative Financial Instruments

The Company uses derivative financial instruments primarily for purposes of hedging exposures to fluctuations in interest rates. These derivative contracts are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments.

All derivatives are recognized on the balance sheet at fair value. On the date the derivative contract is entered into, the Company designates the derivative as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge).

The gains and losses on the effective portion of cash-flow hedges are recorded in other comprehensive income, until earnings are affected by the variability of cash flows. Any ineffective portion of designated cash-flow hedges is recognized in current-period earnings.

Cash flows from derivative contracts are included in net cash provided by operating activities on the Consolidated Statements of Cash Flows. See Note 11—Long-Term Debt for additional information.

Pension and Other Postretirement Benefits

The Company maintains defined benefit pension plans and other postretirement benefit plans for eligible employees and retirees. The plan obligation and costs of providing benefits under these plans are annually measured as of December 31. The measurement involves various factors, assumptions and accounting elections. The impact of assumption changes or experience different from that assumed on pension and other postretirement benefit obligations is recognized over time rather than immediately recognized in the Consolidated Statements of Operations and the Consolidated Statements of Comprehensive Income. Cumulative gains and losses that are in excess of 10% of the greater of either the projected benefit obligation or the fair value of plan assets are amortized over the expected average remaining future service period of the current active membership for the plans, with the exception of the American Water Pension Plan for Certain Inactive Participants ("AWPP Inactive"), which is amortized over the average remaining life expectancy of the inactive participants. See Note 15—Employee Benefits for additional information.

The Company's policy is to recognize curtailments when the total expected future service of plan participants is reduced by greater than 10% due to an event that results in terminations and/or retirements.

New Accounting Standards

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

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

Presented in the table below are recently issued accounting standards that have not yet been adopted by the Company as of December 31, 2023:

Standard	Description	Date of Adoption	Application	Estimated 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.	January 1, 2024, effective for fiscal year 2024 and interim periods within fiscal years beginning in 2025	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.

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 assuming a constant sales volume and customer count, resulting from general rate case authorizations that became effective during 2023:

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

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

On June 29, 2023, the California Public Utilities Commission ("CPUC") issued a decision on the cost of capital application for the Company's California subsidiary, which authorized a return on equity of 8.98% and a capital structure with an equity component of 57.04% for the three-year period from 2022 to 2024. The CPUC's decision was effective from the date of the order through the end of 2024. The decision included a Water Cost of Capital Mechanism (the "WCCM") that allows the California subsidiary to increase its return on equity for the remainder of 2023 and 2024 based on capital market rates. As authorized by the WCCM, the California subsidiary filed with the CPUC staff advice letters to increase the return on equity. On July 25, 2023, the CPUC staff approved a return on equity of 9.50%, effective July 31, 2023. On November 15, 2023, the CPUC staff approved a return on equity of 10.20%, effective January 1, 2024.

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

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

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

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

Pending General Rate Case Filings

On 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 $136 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 starting 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 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 will be effective May 1, 2024, with the difference between interim and final approved rates subject to refund.

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

On May 1, 2023, the Company's West Virginia subsidiary filed a general rate case requesting $45 million in additional annualized revenues, excluding previously approved infrastructure surcharges of $7 million. The request is based on a proposed return on equity of 10.50% and a capital structure with an equity component of 52.80%. The general rate case includes a future test year capturing planned investment through 2025 and an order is expected to be issued by February 25, 2024. On June 30, 2023, the West Virginia subsidiary filed its annual infrastructure surcharge requesting $8 million in additional annualized revenues for planned investment through 2024. The infrastructure surcharge will be aligned with the investments recognized in the general rate case if the future test year is approved.

On March 31, 2023, the Company's Indiana subsidiary filed a general rate case requesting $87 million in additional annualized revenues, excluding $41 million of revenue from infrastructure filings already approved, which includes three step increases, with $43 million of the increase to be included in rates in January 2024, $18 million in May 2024, and $26 million in May 2025. The requested adjustment is based on a proposed return on equity of 10.60% and a capital structure with an equity component of 56.20%. Hearings were completed in September and an order is expected in the general rate case by the end of February 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 mid-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 2023:

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

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

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

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 on or after January 1, 2024:

	Effective Date	Amount
Infrastructure surcharge filings by state:		
Missouri	January 20, 2024	$ 26
Illinois	January 1, 2024	5
Total infrastructure surcharge filings		$ 31

Pending Infrastructure Surcharge Filings

On January 31, 2024, the Company's Iowa subsidiary filed an infrastructure surcharge proceeding requesting $1 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.

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

Regulatory Assets

Regulatory assets represent costs that are probable of recovery from customers in future rates. Approximately 50% of the Company's total regulatory asset balance at December 31, 2023, earns a return. Presented in the table below is the composition of regulatory assets as of December 31:

	2023	2022
Deferred pension expense	$ 308	$ 251
Removal costs recoverable through rates	322	307
Unamortized debt expense	82	76
Regulatory balancing accounts	81	87
Other	313	269
Total regulatory assets	$ 1,106	$ 990

The Company's deferred pension expense includes a portion of the underfunded status that is probable of recovery through rates in future periods of $300 million and $251 million as of December 31, 2023 and 2022, respectively. The remaining portion is the pension expense in excess of authorized amounts which is deferred by certain subsidiaries and will be recovered in future service rates.

Removal costs recoverable through rates represent costs incurred for removal of property, plant and equipment or other retirement costs.

Unamortized debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt issuance costs, are deferred and amortized to the extent they will be recovered through future service rates.

Regulatory balancing accounts accumulate differences between revenues recognized and authorized revenue requirements until they are collected from customers or are refunded. Regulatory balancing accounts include low income programs, purchased power and water accounts, dam removal costs and other cost balancing mechanisms.

Other regulatory assets include the financial impacts relating to the COVID-19 pandemic, customer owned lead service line removal costs, purchase premiums recoverable through rates, tank painting costs, certain construction costs for treatment facilities, property tax stabilization, employee-related costs, business services project expenses, coastal water project costs, rate case expenditures and environmental remediation costs among others. These costs are deferred because the amounts are being recovered in rates or are probable of recovery through rates in future periods.

The Company has current regulatory assets of $13 million and $40 million included in other current assets on the Consolidated Balance Sheets as of December 31, 2023 and 2022, respectively.

Regulatory Liabilities

Regulatory liabilities generally represent amounts that are probable of being credited or refunded to customers through the rate making process. Also, if costs expected to be incurred in the future are currently being recovered through rates, the Company records those expected future costs as regulatory liabilities. Presented in the table below is the composition of regulatory liabilities as of December 31:

	2023	2022
Income taxes recovered through rates	$ 1,064	$ 1,127
Removal costs recovered through rates	254	275
Postretirement benefit liability	85	100
Other	78	88
Total regulatory liabilities	$ 1,481	$ 1,590

Income taxes recovered through rates relate to deferred taxes that will be refunded to the Company's customers. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("TCJA") was signed into law, which, among other things, enacted significant and complex changes to the Internal Revenue Code of 1986, as amended, including a reduction in the federal corporate income tax rate from 35% to 21% as of January 1, 2018. The enactment of the TCJA required a re-measurement of the Company's deferred income taxes. The portion of this re-measurement related to the Regulated Businesses was substantially offset by a regulatory liability as the excess accumulated deferred income taxes ("EADIT") will be used to benefit its regulated customers in future rates. All of the Company's regulated subsidiaries are amortizing EADIT and crediting customers.

Removal costs recovered through rates are estimated costs to retire assets at the end of their expected useful lives that are recovered through customer rates over the lives of the associated assets.

Postretirement benefit liability includes a portion of the over-funded status that is probable of refund through rates in future periods. The remaining portion represents prior service credits resulting from announced plan amendments which changed benefits for certain union and non-union plan participants.

Other regulatory liabilities include the financial impacts relating to the COVID-19 pandemic, TCJA reserves on revenue, pension and other postretirement benefit balancing accounts, legal settlement proceeds, deferred gains and various regulatory balancing accounts.

The Company has current regulatory liabilities of $1 million and $5 million included in other current liabilities on the Consolidated Balance Sheets as of December 31, 2023 and 2022, respectively.

Note 4: Revenue Recognition

Disaggregated Revenues

Presented in the table below are operating revenues disaggregated for the year ended December 31, 2023:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 2,143	$ —	$ 2,143
Commercial	798	—	798
Fire service	158	—	158
Industrial	167	—	167
Public and other	274	—	274
Total water services	3,540	—	3,540
Wastewater services:			
Residential	228	—	228
Commercial	62	—	62
Industrial	8	—	8
Public and other	29	—	29
Total wastewater services	327	—	327
Miscellaneous utility charges	35	—	35
Alternative revenue programs	—	10	10
Lease contract revenue	—	8	8
Total Regulated Businesses	3,902	18	3,920
Other	315	(1)	314
Total operating revenues	$ 4,217	$ 17	$ 4,234

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

Presented in the table below are operating revenues disaggregated for the year ended December 31, 2022:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 1,938	$ 3	$ 1,941
Commercial	709	1	710
Fire service	147	—	147
Industrial	152	1	153
Public and other	252	—	252
Total water services	3,198	5	3,203
Wastewater services:			
Residential	173	1	174
Commercial	45	—	45
Industrial	4	—	4
Public and other	19	—	19
Total wastewater services	241	1	242
Miscellaneous utility charges	36	—	36
Alternative revenue programs	—	15	15
Lease contract revenue	—	9	9
Total Regulated Businesses	3,475	30	3,505
Other	288	(1)	287
Total operating revenues	$ 3,763	$ 29	$ 3,792

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

Presented in the table below are operating revenues disaggregated for the year ended December 31, 2021:

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
Regulated Businesses:			
Water services:			
Residential	$ 1,935	$ —	$ 1,935
Commercial	676	—	676
Fire service	151	—	151
Industrial	141	—	141
Public and other	230	—	230
Total water services	3,133	—	3,133
Wastewater services:			
Residential	151	—	151
Commercial	37	—	37
Industrial	4	—	4
Public and other	16	—	16
Total wastewater services	208	—	208
Miscellaneous utility charges	26	—	26
Alternative revenue programs	—	9	9
Lease contract revenue	—	8	8
Total Regulated Businesses	3,367	17	3,384
Other	547	(1)	546
Total operating revenues	$ 3,914	$ 16	$ 3,930

(a) Includes revenues associated with 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 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 $95 million, $86 million and $71 million are included in unbilled revenues on the Consolidated Balance Sheets as of December 31, 2023, 2022 and 2021, respectively. There were $87 million of contract assets added during 2023, and $78 million of contract assets were transferred to accounts receivable during 2023. There were $161 million of contract assets added during 2022, and $146 million of contract assets were transferred to accounts receivable during 2022.

Contract liabilities of $63 million, $91 million and $19 million are included in other current liabilities on the Consolidated Balance Sheets as of December 31, 2023, 2022 and 2021, respectively. There were $103 million of contract liabilities added during 2023, and $131 million of contract liabilities were recognized as revenue during 2023. There were $189 million of contract liabilities added during 2022, and $117 million of contract liabilities were recognized as revenue during 2022.

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 December 31, 2023, the Company's O&M and capital improvement contracts in MSG and the Contract Services Group have RPOs. Contracts with the U.S. government for work on military installations expire between 2051 and 2073 and have RPOs of $7.2 billion as of December 31, 2023, as measured by estimated remaining contract revenue. Such contracts are subject to customary termination provisions held by the U.S. government, prior to the agreed-upon contract expiration. Contracts with municipalities and commercial customers expire between 2026 and 2038 and have RPOs of $612 million as of December 31, 2023, as measured by estimated remaining contract revenue. Some of the Company's long-term contracts to operate and maintain the federal government's, a municipality's or other party's water or wastewater treatment and delivery facilities include responsibility for certain maintenance for some of those facilities, in exchange for an annual fee. Unless specifically required to perform certain maintenance activities, the maintenance costs are recognized when the maintenance is performed.

Note 5: Acquisitions and Divestitures

Regulated Businesses

Closed Acquisitions

During 2023, the Company closed on 23 acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $77 million, which added approximately 18,100 water and wastewater customers. Assets acquired from these acquisitions, principally utility plant, totaled $81 million and liabilities assumed totaled $4 million. This includes the Company's New Jersey subsidiary's acquisition of the water and wastewater assets of Egg Harbor City on June 1, 2023, for a cash purchase price of $22 million, $2 million of which was funded as a deposit to the seller in March 2021 in connection with the execution of the acquisition agreement. Five of these acquisitions were accounted for as business combinations and the assets acquired consisted primarily of utility plant. The preliminary purchase price allocations related to acquisitions accounted for as business combinations will be finalized once the valuation of assets acquired has been completed, no later than one year after their acquisition date.

During 2022, the Company closed on 26 acquisitions of various regulated water and wastewater systems for a total aggregate purchase price of $335 million, of which $315 million was funded in 2022, including the acquisition of the City of York wastewater system assets noted below. Assets acquired from these acquisitions, principally utility plant, totaled $337 million and liabilities assumed totaled $6 million. Several of these acquisitions were accounted for as business combinations.

On May 27, 2022, the Company's Pennsylvania subsidiary acquired the public wastewater collection and treatment system assets from the York City Sewer Authority and the City of York for a purchase price of $235 million, in cash, $20 million of which was funded as a deposit to the seller in April 2021 in connection with the execution of the acquisition agreement. The system assets serve, directly and indirectly through bulk contracts, more than 45,000 customers. The acquisition was accounted for as a business combination. The purchase price allocation consisted primarily of $231 million of utility plant and $4 million of goodwill, which is reported in the Company's Regulated Businesses segment.

The pro forma impact of the Company's acquisitions was not material to the Consolidated Statements of Operations for the years ended December 31, 2023, 2022 and 2021.

Pending Acquisitions

On April 6, 2023, the Company's Illinois subsidiary entered into an agreement to acquire the wastewater treatment plant from Granite City for an amended purchase price of $86 million. This plant provides wastewater service for approximately 26,000 customer connections. The Company expects to close this acquisition in the first quarter of 2024.

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

On October 11, 2022, the Company's Pennsylvania subsidiary entered into an agreement to acquire the public wastewater collection and treatment system assets (the "System Assets") from the Butler Area Sewer Authority. On November 9, 2023, 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. The order also granted expedited consideration and directed the case to be included on the next available list and established a briefing schedule. 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 New York American Water Company, Inc.

On January 1, 2022, the Company completed the previously disclosed sale of its regulated utility operations in New York to Liberty Utilities (Eastern Water Holdings) Corp. ("Liberty"), an indirect, wholly owned subsidiary of Algonquin Power & Utilities Corp. Liberty purchased from the Company all of the capital stock of the Company's New York subsidiary for a purchase price of $608 million in cash. The Company's regulated New York operations represented approximately 127,000 customers in the State of New York.

Sale of Michigan American Water Company

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

Sale of Homeowner Services Group

On December 9, 2021 (the "Closing Date"), the Company sold all of the equity interests in subsidiaries that comprised 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, resulting in pre-tax gain of $748 million. 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. For the year ended December 31, 2022, the Company recorded post-closing adjustments, primarily related to working capital, of pre-tax income of $20 million, which is included in Gain on sale of businesses on the Consolidated Statements of Operations. The Company recognized $50 million of interest income during the years ended December 31, 2023 and 2022, from the secured seller note.

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 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 $75 million additional principal under the secured seller note must be repaid in full, without premium or penalty, in the event a proposed acquisition of a complementary business by or on behalf of an affiliate of the Buyer is not completed by May 2, 2024. 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: Property, Plant and Equipment

Presented in the table below are the major classes of property, plant and equipment by category as of December 31:

	2023	2022	Range of Remaining Useful Lives	Weighted Average Useful Life
Utility plant:				
Land and other non-depreciable assets	$ 293	$ 239		
Sources of supply	1,081	1,003	10 to 127 years	46 years
Treatment and pumping facilities	4,594	4,298	3 to 101 years	39 years
Transmission and distribution facilities	13,900	12,971	6 to 128 years	68 years
Services, meters and fire hydrants	5,696	5,162	5 to 90 years	32 years
General structures and equipment	2,512	2,289	1 to 109 years	16 years
Waste collection	1,719	1,539	5 to 113 years	57 years
Waste treatment, pumping and disposal	1,191	1,129	2 to 153 years	37 years
Construction work in progress	1,040	974		
Other plant	24	23		
Total utility plant	32,050	29,627		
Nonutility property	139	109	3 to 50 years	12 years
Total property, plant and equipment	$ 32,189	$ 29,736		

Property, plant and equipment depreciation expense amounted to $617 million, $552 million and $550 million for the years ended December 31, 2023, 2022 and 2021, respectively and was included in depreciation and amortization expense on the Consolidated Statements of Operations. The provision for depreciation expressed as a percentage of the aggregate average depreciable asset balances was 2.68%, 2.60% and 2.77% for the years ended December 31, 2023, 2022 and 2021, respectively. Additionally, the Company had capital expenditures acquired on account but unpaid of $399 million and $330 million included in accrued liabilities on the Consolidated Balance Sheets as of December 31, 2023 and 2022, respectively.

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

The Company is required to meet various annual requirements, including the maintenance of qualified full-time positions at the qualified business facility, in order to monetize one-tenth of the tax credits annually and is subject to a claw-back period if the Company does not meet certain NJEDA requirements of the tax credit program in years 11 through 15.

In December 2022 and March 2023, the NJEDA issued the utilization certificates for the 2019 and 2020 tax credits, respectively, to the Company in the amount of $16 million each. The Company sold these tax credits to external parties for $15 million each. The loss on the sales of the tax credits was recorded to Other income (expense) in the Consolidated Statements of Operations for the years ended December 31, 2023 and 2022. As of December 31, 2023 and 2022, the Company had assets of $32 million and $48 million, respectively, in other current assets and $90 million and $97 million, respectively, in other long-term assets on the Consolidated Balance Sheets as a result of these tax credits. In 2023, the Company reduced net realizable value of the future tax credit receivable by approximately $7 million as the Company does not expect it will be eligible for the full amount of the tax credit resulting from lower than required eligible headcount in the future. In January 2024, the NJEDA issued the utilization certificate for the 2021 tax credit to the Company in the amount of $16 million. The Company sold this tax credit to an external party for $15 million. The loss on the sale of the tax credit will be recorded to Other income (expense) in the Consolidated Statements of Operations for the year ended December 31, 2024. The Company has made the necessary annual filing for the year ended December 31, 2022, and expects to make the 2023 filing in April 2024, prior to the required filing deadline. The submitted filing is under review by the NJEDA and it is expected that the Company will receive final NJEDA approval and monetize the credits in 2024.

Note 7: Allowance for Uncollectible Accounts

Presented in the table below are the changes in the allowances for uncollectible accounts for the years ended December 31:

	2023	2022	2021
Balance as of January 1	$ (60)	$ (75)	$ (60)
Amounts charged to expense	(24)	(24)	(37)
Amounts written off	28	27	35
Other, net (a)	5	12	(13)
Balance as of December 31	$ (51)	$ (60)	$ (75)

(a) This portion of the allowance for uncollectible accounts is primarily related to COVID-19 related regulatory asset activity. The 2021 activity also includes the portion of the allowance related to the Company's New York subsidiary, which was sold on January 1, 2022. See Note 5—Acquisitions and Divestitures for additional information.

Note 8: Goodwill

Goodwill

Presented in the table below are the changes in the carrying value of goodwill for the years ended December 31, 2023 and 2022:

	Regulated Businesses		Other		Consolidated		
	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Cost	Accumulated Impairment	Total Net
Balance as of January 1, 2022	$ 3,466	$ (2,332)	$ 113	$ (108)	$ 3,579	$ (2,440)	$ 1,139
Goodwill from acquisitions	4	—	—	—	4	—	4
Balance as of December 31, 2022	$ 3,470	$ (2,332)	$ 113	$ (108)	$ 3,583	$ (2,440)	$ 1,143
Goodwill from acquisitions	—	—	—	—	—	—	—
Balance as of December 31, 2023	$ 3,470	$ (2,332)	$ 113	$ (108)	$ 3,583	$ (2,440)	$ 1,143

The Company completed its annual impairment testing of goodwill as of November 30, 2023, which included qualitative assessments of its Regulated Businesses and MSG reporting units. Based on these assessments, the Company determined that there were no factors present that would indicate that the fair value of these reporting units was less than their respective carrying values as of November 30, 2023.

In 2023, there were no additions or impairments to the Company's goodwill.

In 2022, the Company acquired goodwill of $4 million associated with one of its acquisitions in the Regulated Businesses segment.

Note 9: Shareholders' Equity

Common Stock Offering

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

Dividend Reinvestment and Direct Stock Purchase Plan

Under the Company's dividend reinvestment and direct stock purchase plan (the "DRIP"), shareholders may reinvest cash common stock dividends and purchase additional shares of Company common stock, up to certain limits, through the plan administrator without paying brokerage commissions. Shares purchased by participants through the DRIP may be newly issued shares, treasury shares, or at the Company's election, shares purchased by the plan administrator in the open market or in privately negotiated transactions. Purchases generally will be made and credited to DRIP accounts once each week. As of December 31, 2023, there were approximately 4.1 million shares available for future issuance under the DRIP.

Anti-dilutive Stock Repurchase Program

In February 2015, the Company's Board of Directors authorized an anti-dilutive stock repurchase program, which allows the Company to purchase up to 10 million shares of its outstanding common stock from time to time over an unrestricted period of time. The Company did not repurchase shares of common stock during the years ended December 31, 2023 and 2022. As of December 31, 2023, there were 5.1 million shares of common stock available for purchase under the program.

Accumulated Other Comprehensive Loss

Presented in the table below are the changes in accumulated other comprehensive loss by component, net of tax, for the years ended December 31, 2023 and 2022:

	Defined Benefit Plans					
	Employee Benefit Plan Funded Status	**Amortization of Prior Service Cost**	**Amortization of Actuarial Loss**	**Gain (Loss) on Cash Flow Hedge**	**Gain (Loss) on Fixed-Income Securities**	**Accumulated Other Comprehensive Loss**
Beginning balance as of January 1, 2022	$ (107)	$ 1	$ 67	$ (6)	$ —	$ (45)
Other comprehensive income (loss) before reclassification	14	—	—	5	—	19
Amounts reclassified from accumulated other comprehensive loss	—	—	3	—	—	3
Net other comprehensive income (loss)	14	—	3	5	—	22
Ending balance as of December 31, 2022	$ (93)	$ 1	$ 70	$ (1)	$ —	$ (23)
Other comprehensive income (loss) before reclassification	(3)	—	—	(8)	4	(7)
Amounts reclassified from accumulated other comprehensive loss	—	—	4	—	—	4
Net other comprehensive income (loss)	(3)	—	4	(8)	4	(3)
Ending balance as of December 31, 2023	$ (96)	$ 1	$ 74	$ (9)	$ 4	$ (26)

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. See Note 15—Employee Benefits for additional information.

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

Dividends and Distributions

The Company's Board of Directors authorizes the payment of dividends. The Company's ability to pay dividends on its common stock is subject to having access to sufficient sources of liquidity, net income and cash flows of the Company's subsidiaries, the receipt of dividends and direct and indirect distributions from, and repayments of indebtedness of, the Company's subsidiaries, compliance with Delaware corporate and other laws, compliance with the contractual provisions of debt and other agreements and other factors.

The Company's dividend rate on its common stock is determined by the Board of Directors on a quarterly basis and takes into consideration, among other factors, current and possible future developments that may affect the Company's income and cash flows. When dividends on common stock are declared, they are typically paid in March, June, September and December. Historically, dividends have been paid quarterly to holders of record as of a date less than 30 days prior to the distribution date. Since the dividends on the Company's common stock are not cumulative, only declared dividends are paid.

During 2023, 2022 and 2021, the Company paid $532 million, $467 million and $428 million in cash dividends, respectively. Presented in the table below is the per share cash dividends paid for the years ended December 31:

	2023	2022	2021
December	$ 0.7075	$ 0.6550	$ 0.6025
September	$ 0.7075	$ 0.6550	$ 0.6025
June	$ 0.7075	$ 0.6550	$ 0.6025
March	$ 0.6550	$ 0.6025	$ 0.5500

On December 6, 2023, the Company's Board of Directors declared a quarterly cash dividend payment of $0.7075 per share payable on March 1, 2024, to shareholders of record as of February 8, 2024.

Under applicable law, the Company's subsidiaries may pay dividends on their capital stock or other equity only from retained, undistributed or current earnings. A significant loss recorded at a subsidiary may limit the amount of the dividend that the subsidiary can pay. The ability of the Company's subsidiaries to pay upstream dividends, make other upstream distributions or repay indebtedness to parent company or AWCC, the Company's wholly owned financing subsidiary, as applicable, is subject to compliance with applicable corporate, tax and other laws, regulatory restrictions and financial and other contractual obligations, including, for example, (i) regulatory capital, surplus or net worth requirements, (ii) outstanding debt service obligations, (iii) requirements to make preferred and preference stock dividend payments, and (iv) other contractual agreements, covenants or obligations made or entered into by the Company and its subsidiaries.

Regulatory Restrictions on Indebtedness

The issuance of long-term debt or equity securities by the Company or long-term debt by AWCC does not require authorization of any state PUC if no guarantee or pledge of the regulated subsidiaries is utilized. Based on the needs of the Regulated Businesses and parent company, AWCC may borrow funds or issue its debt in the capital markets and then, through intercompany loans, provide these borrowings to the Regulated Businesses or parent company. PUC authorization is generally required for the regulated subsidiaries to incur long-term debt. The Company's regulated subsidiaries normally obtain these required PUC authorizations on a periodic basis to cover their anticipated financing needs for a period of time, or, as necessary, in connection with a specific financing or refinancing of debt.

Note 10: Stock Based Compensation

The Company has granted stock units, stock awards and dividend equivalents to non-employee directors, officers and employees pursuant to the terms of the 2017 Omnibus Equity Compensation Plan (the "2017 Omnibus Plan"), approved by the Company's shareholders in May 2017. Stock units under the 2017 Omnibus Plan generally vest based on (i) continued employment with the Company ("RSUs"), or (ii) continued employment with the Company where distribution of the shares is subject to the satisfaction in whole or in part of stated performance-based goals ("PSUs"). A total of 7.2 million shares of common stock may be issued under the 2017 Omnibus Plan. As of December 31, 2023, 6.1 million shares were available for grant under the 2017 Omnibus Plan. The 2017 Omnibus Plan provides that grants of awards may be in any of the following forms: incentive stock options, nonqualified stock options, stock appreciation rights, stock units, stock awards, other stock-based awards and dividend equivalents. Dividend equivalents may be granted only on stock units or other stock-based awards. The 2017 Omnibus Plan expires in 2027.

The Company had granted stock options, stock units, including RSUs and PSUs, and dividend equivalents to non-employee directors, officers and other key employees of the Company under its 2007 Omnibus Equity Compensation Plan (the "2007 Plan"). The 2007 Plan has been replaced by the 2017 Omnibus Plan, as defined above, and no additional awards may be granted under the 2007 Plan. However, shares may still be issued under the 2007 Plan pursuant to the terms of awards previously issued under that plan prior to May 12, 2017.

The cost of services received from employees in exchange for the issuance of restricted stock awards is measured based on the grant date fair value of the awards issued. The value of stock unit awards at the date of the grant is amortized through expense over the requisite service period. All awards granted in 2023, 2022 and 2021 are classified as equity. The Company recognizes compensation expense for stock awards over the vesting period of the award. The Company stratified its grant populations and used historic employee turnover rates to estimate employee forfeitures. The estimated rate is compared to the actual forfeitures at the end of the reporting period and adjusted as necessary. There have been no significant adjustments to the forfeiture rates during 2023, 2022 and 2021. There were no grants of stock options to employees after 2016, and there were no stock options outstanding as of December 31, 2022. Presented in the table below is the stock-based compensation expense recorded in O&M expense in the accompanying Consolidated Statements of Operations for the years ended December 31:

	2023	2022	2021
RSUs and PSUs	$ 23	$ 26	$ 15
Nonqualified employee stock purchase plan	2	2	2
Stock-based compensation	25	28	17
Income tax benefit	(6)	(6)	(4)
Stock-based compensation expense, net of tax	$ 19	$ 22	$ 13

There were no significant stock-based compensation costs capitalized during the years ended December 31, 2023, 2022 and 2021.

Subject to limitations on deductibility imposed by the Federal income tax code, the Company receives a tax deduction based on the intrinsic value of the award at the exercise date for stock options and the distribution date for stock units. For each award, throughout the requisite service period, the Company records the tax impacts related to compensation costs as deferred income tax assets. The tax deductions in excess of the deferred benefits recorded throughout the requisite service period are recorded to the Consolidated Statements of Operations and are presented in the financing section of the Consolidated Statements of Cash Flows.

Stock Units

During 2023, 2022 and 2021, the Company granted RSUs to certain employees under the 2017 Omnibus Plan. RSUs generally vest based on continued employment with the Company over periods ranging from one to three years. The RSUs are valued at the closing price of the Company's common stock on the date of the grant and the majority vest ratably over a three-year service period. These RSUs are amortized through expense over the requisite service period using the straight-line method.

During 2023, 2022 and 2021, the Company granted stock units to non-employee directors under the 2017 Omnibus Plan. The stock units were vested in full on the date of grant; however, distribution of the shares will be made within 30 days of the earlier of (i) 15 months after the date of the last annual meeting of shareholders, subject to any deferral election by the director, or (ii) the participant's separation from service. Because these stock units vested on the grant date, the total grant date fair value was recorded in operation and maintenance expense on the grant date.

Presented in the table below is RSU and director stock unit activity for the year ended December 31, 2023:

	Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Non-vested total as of December 31, 2022	51	$ 130.43
Granted	59	148.93
Vested	(42)	148.17
Forfeited	(4)	149.85
Non-vested total as of December 31, 2023	64	$ 134.61

As of December 31, 2023, $6 million of total unrecognized compensation cost related to the nonvested RSUs is expected to be recognized over the weighted average remaining life of 1.55 years. The total fair value of stock units and RSUs vested was $6 million, $6 million and $9 million for the years ended December 31, 2023, 2022 and 2021, respectively.

During 2023, 2022 and 2021, the Company granted PSUs to certain employees under the 2017 Omnibus Plan. The majority of PSUs vest ratably based on continued employment with the Company over the three-year performance period (the "Performance Period"). Distribution of the performance shares is contingent upon the achievement of one or more internal performance measures and, separately, a relative total shareholder return performance measure, over the Performance Period.

Presented in the table below is PSU activity for the year ended December 31, 2023:

	Shares (in thousands)	Weighted Average Grant Date Fair Value (per share)
Non-vested total as of December 31, 2022	231	$ 142.92
Granted	173	159.42
Vested	(149)	161.25
Forfeited	(10)	146.78
Non-vested total as of December 31, 2023	245	$ 143.26

As of December 31, 2023, $9 million of total unrecognized compensation cost related to the nonvested PSUs is expected to be recognized over the weighted average remaining life of 0.84 years. The total fair value of PSUs vested was $31 million, $24 million and $22 million for the years ended December 31, 2023, 2022 and 2021, respectively.

PSUs granted with one or more internal performance measures are valued at the market value of the closing price of the Company's common stock on the date of grant. PSUs granted with a relative total shareholder return condition are valued using a Monte Carlo simulation model. Expected volatility is based on historical volatilities of traded common stock of the Company and comparative companies using daily stock prices over the past three years. The expected term is three years and the risk-free interest rate is based on the three-year U.S. Treasury rate in effect as of the measurement date. Presented in the table below are the weighted average assumptions used in the Monte Carlo simulation and the weighted average grant date fair values of PSUs granted for the years ended December 31:

	2023	2022	2021
Expected volatility	25.45%	29.69%	28.59%
Risk-free interest rate	4.31%	1.90%	0.22%
Expected life (years)	3.0	3.0	3.0
Grant date fair value per share	$168.00	$99.23	$229.22

The grant date fair value of PSUs that vest ratably and have market and/or performance conditions are amortized through expense over the requisite service period using the graded-vesting method.

Employee Stock Purchase Plan

The Company maintains a nonqualified employee stock purchase plan (the "ESPP") that expires in 2027 through which employee participants (which excludes certain of the Company's executives) may use payroll deductions to acquire Company common stock at a purchase price of 85% of the fair market value of the common stock at the end of a three-month purchase period. A total of 2.0 million shares may be issued under the ESPP, and as of December 31, 2023, there were 1.5 million shares of common stock reserved for issuance under the ESPP. The ESPP is considered compensatory. During the years ended December 31, 2023, 2022 and 2021, the Company issued approximately 87,000, 82,000 and 80,000 shares, respectively, under the ESPP.

Note 11: Long-Term Debt

The Company obtains long-term debt through AWCC primarily to fund capital expenditures of the Regulated Businesses and to lend funds to parent company to refinance debt and for other purposes. Presented in the table below are the components of long-term debt as of December 31:

	Rate	Weighted Average Rate	Maturity	2023	2022
Long-term debt of AWCC: (a)					
Senior notes—fixed rate	2.30%-8.27%	3.85%	2024-2051	$ 10,786	$ 9,765
Private activity bonds and government funded debt—fixed rate	1.79%-3.88%	3.07%	2024-2031	188	189
Long-term debt of other American Water subsidiaries:					
Private activity bonds and government funded debt—fixed rate	0.00%-5.50%	2.15%	2024-2051	729	749
Mortgage bonds—fixed rate	6.35%-9.19%	7.38%	2024-2039	516	534
Mandatorily redeemable preferred stock	8.47%-9.75%	8.64%	2036	3	3
Long-term debt		3.89%		12,222	11,240
Unamortized debt discount, net (b)				(11)	(11)
Unamortized debt issuance costs				(18)	(19)
Less current portion of long-term debt				(475)	(281)
Total long-term debt				$ 11,718	$ 10,929

(a) This indebtedness is considered “debt” for purposes of a support agreement between parent company and AWCC, which serves as a functional equivalent of a full and unconditional guarantee by parent company of AWCC’s payment obligations under such indebtedness.

(b) Includes debt discount, net of fair value adjustments previously recognized in acquisition purchase accounting.

All mortgage bonds and $720 million of the private activity bonds and government funded debt held by the Company’s subsidiaries were collateralized as of December 31, 2023.

Long-term debt agreements contain a number of covenants that, among other things, limit, subject to certain exceptions, AWCC from issuing debt secured by the Company’s consolidated assets. Certain long-term note covenants require the Company to maintain a ratio of consolidated total indebtedness to consolidated total capitalization (each as defined in the relevant documents) of not more than 0.70 to 1.00. The ratio as of December 31, 2023, was 0.56 to 1.00. In addition, the Company has $830 million of notes which include the right to redeem the notes at par value, in whole or in part, from time to time, subject to certain restrictions, with a weighted average interest rate of 2.51%.

Presented in the table below are future sinking fund payments and debt maturities:

	Amount
2024	$ 475
2025	619
2026	1,478
2027	700
2028	868
Thereafter	8,082

Presented in the table below are the issuances of long-term debt in 2023:

Company	Type	Rate	Weighted Average Rate	Maturity	Amount
AWCC	Senior notes—fixed rate	3.63%	3.63%	2026	$ 1,035
AWCC	Private activity bonds and government funded debt—fixed rate	3.70%-3.88%	3.80%	2028	86
Other American Water subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-3.75%	2.88%	2025-2041	143
Total issuances					$ 1,264

The Company incurred debt issuance costs of $16 million related to the above issuances.

Presented in the table below are the retirements and redemptions of long-term debt in 2023 through sinking fund provisions, optional redemption or payment at maturity:

Company	Type	Rate	Weighted Average Rate	Maturity	Amount
AWCC	Senior notes—fixed rate	6.55%	6.55%	2023	$ 14
AWCC	Private activity bonds and government funded debt—fixed rate	0.60%-2.31%	0.68%	2023-2031	87
Other American Water subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-5.50%	1.20%	2023-2051	163
Other American Water subsidiaries	Mortgage bonds—fixed rate	6.76%-6.96%	6.84%	2023	18
Total retirements and redemptions					$ 282

On June 29, 2023, AWCC issued, in a private placement, $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.

One of the principal market risks to which the Company is exposed is changes in interest rates. In order to manage the exposure, the Company follows risk management policies and procedures, including the use of derivative contracts such as treasury lock agreements. The Company also reduces exposure to interest rates by managing commercial paper and debt maturities. The Company does not enter into derivative contracts for speculative purposes and does not use leveraged instruments. The derivative contracts entered into are for periods consistent with the related underlying exposures. The Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations and minimizes this risk by dealing only with leading, creditworthy financial institutions having long-term credit ratings of "A" or better.

In November and December 2023, the Company entered into six treasury lock agreements, each with a term of 10 years, with notional amounts totaling $225 million, to reduce interest rate exposure on debt expected to be issued in 2024. These treasury lock agreements terminate in September 2024, and have an average fixed rate of 4.24%. The Company designated these treasury lock agreements as cash flow hedges, with their fair value recorded in accumulated other comprehensive gain or loss. Upon termination, the cumulative gain or loss recorded in accumulated other comprehensive gain or loss will be amortized through interest, net over the term of the new debt.

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

No ineffectiveness was recognized on hedging instruments for the years ended December 31, 2023, 2022 or 2021.

Note 12: 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. On October 26, 2023, the termination date of the credit agreement with respect to AWCC's revolving credit facility was extended, as permitted by the terms of the credit agreement, from October 2027 to October 2028. The facility is used principally to support AWCC's commercial paper program, to provide additional liquidity support and to provide a sub-limit of up to $150 million for letters of credit. Letters of credit are non-debt instruments maintained to provide credit support for certain transactions as requested by third parties. Subject to satisfying certain conditions, the credit agreement also permits AWCC to increase the maximum commitment under the facility by up to an aggregate of $500 million and to request extensions of its expiration date for up to two one-year periods, as to which one such extension request remains. As of December 31, 2023, AWCC had no outstanding borrowings and $75 million of outstanding letters of credit under the revolving credit facility, with $2.50 billion available to fulfill the Company's short-term liquidity needs and to issue letters of credit. The Company regularly evaluates the capital markets and closely monitors the financial condition of the financial institutions with contractual commitments in its revolving credit facility. Interest rates on advances under the facility are based on a credit spread to the Secured Overnight Financing Rate (or applicable market replacement rate) or base rate, each determined in accordance with Moody Investors Service's and S&P Global Ratings' then applicable credit rating on AWCC's senior unsecured, non-credit enhanced debt.

Short-term debt consists of commercial paper and credit facility borrowings totaling $180 million and $1,177 million as of December 31, 2023 and 2022, respectively, or net of discount $179 million and $1,175 million as of December 31, 2023 and 2022, respectively. The weighted average interest rate on AWCC's outstanding short-term borrowings was approximately 5.51% and 4.41%, for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023, there were no commercial paper borrowings outstanding with maturities greater than three months.

Presented in the tables below are 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 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.

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

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

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

	Cash and Cash Equivalents	Availability on Revolving Credit Facility	Total Available Liquidity
Available liquidity as of December 31, 2023	$ 330	$ 2,495	$ 2,825
Available liquidity as of December 31, 2022	$ 85	$ 1,495	$ 1,580

Presented in the table below is the short-term borrowing activity for AWCC for the years ended December 31:

	2023	2022
Average borrowings	$ 288	$ 505
Maximum borrowings outstanding	1,570	1,177
Weighted average interest rates, as of December 31	5.51 %	4.41 %

The credit facility requires the Company to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. The ratio as of December 31, 2023, was 0.56 to 1.00.

The Company does not have any material borrowings that are subject to default or prepayment as a result of a downgrading of securities, although such a downgrading could increase fees and interest charges under AWCC's revolving credit facility.

Note 13: General Taxes

Presented in the table below are the components of general tax expense for the years ended December 31:

	2023	2022	2021
Property and capital stock	$ 119	$ 108	$ 149
Gross receipts and franchise	134	124	121
Payroll	38	36	39
Other general	16	13	12
Total general taxes	$ 307	$ 281	$ 321

Note 14: Income Taxes

Presented in the table below are the components of income tax expense for the years ended December 31:

	2023	2022	2021
Current income taxes:			
State	$ 16	$ 26	$ 72
Federal	28	82	75
Total current income taxes	$ 44	$ 108	$ 147
Deferred income taxes:			
State	$ 44	$ 24	$ 10
Federal	165	57	221
Amortization of deferred investment tax credits	(1)	(1)	(1)
Total deferred income taxes	208	80	230
Provision for income taxes	$ 252	$ 188	$ 377

Presented in the table below is a reconciliation between the statutory federal income tax rate and the Company's effective tax rate for the years ended December 31:

	2023	2022	2021
Income tax at statutory rate	21.0 %	21.0 %	21.0 %
Increases (decreases) resulting from:			
State taxes, net of federal taxes	4.0 %	4.1 %	3.9 %
EADIT	(4.2)%	(6.5)%	(3.6)%
Tax impact due to the sale of HOS	— %	— %	1.6 %
Other, net	0.3 %	0.1 %	0.1 %
Effective tax rate	21.1 %	18.7 %	23.0 %

Presented in the table below are the components of the net deferred tax liability as of December 31:

	2023	2022
Deferred tax assets:		
Advances and contributions	$ 478	$ 351
Tax losses and credits	17	19
Regulatory income tax assets	191	203
Pension and other postretirement benefits	75	64
Other	172	140
Total deferred tax assets	933	777
Valuation allowance	(11)	(11)
Total deferred tax assets, net of allowance	$ 922	$ 766
Deferred tax liabilities:		
Property, plant and equipment	$ 3,269	$ 2,872
Deferred pension and other postretirement benefits	84	64
Other	268	249
Total deferred tax liabilities	3,621	3,185
Total deferred tax liabilities, net of deferred tax assets	$ (2,699)	$ (2,419)

As of December 31, 2023 and 2022, the Company had state net operating loss ("NOL") carryforwards of $238 million and $240 million, respectively, a portion of which are offset by a valuation allowance as the Company does not believe these NOLs are more likely than not to be realized. The state NOL carryforwards expire in 2024 through 2043.

The Company files income tax returns in the United States federal jurisdiction and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state or local or non-U.S. income tax examinations by tax authorities for taxable years ended December 31, 2018 and prior.

Presented in the table below are the changes in gross liability, excluding interest and penalties, for unrecognized tax benefits:

	Amount
Balance as of January 1, 2022	$ 140
Increases in current period tax positions	26
Decreases in prior period measurement of tax positions	(8)
Balance as of December 31, 2022	$ 158
Increases in current period tax positions	27
Decreases in prior period measurement of tax positions	(37)
Balance as of December 31, 2023	$ 148

The Company's tax positions relate primarily to the deductions claimed for repair and maintenance costs on its utility plant. The Company does not anticipate material changes to its unrecognized tax benefits within the next year.

If the Company sustains all of its positions as of December 31, 2023, an unrecognized tax benefit of $9 million, excluding interest and penalties, would impact the Company's effective tax rate. The Company had an immaterial amount of interest and penalties related to its tax positions as of December 31, 2023 and 2022.

Presented in the table below are the changes in the valuation allowance:

	Amount
Balance as of January 1, 2021	$ 19
Decreases in current period tax positions	(9)
Balance as of December 31, 2021	$ 10
Increases in current period tax positions	1
Balance as of December 31, 2022	$ 11
Increases in current period tax positions	—
Balance as of December 31, 2023	$ 11

Other Tax Matters

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

Note 15: Employee Benefits

Overview of Pension and Other Postretirement Benefits Plans

The Company maintains noncontributory defined benefit pension plans covering eligible employees of its regulated utility and shared services operations. Benefits under the plans are based on the employee's years of service and compensation. The pension plans have been closed for all new employees. The pension plans were closed for most employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001, except for specific eligible groups specified in the plan, had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001, and non-union employees hired on or after January 1, 2006, are provided with a defined contribution plan that includes a 5.25% of base pay Company-funded defined contribution account. The Company does not participate in a multi-employer plan. The Company also has unfunded noncontributory supplemental nonqualified pension plans that provide additional retirement benefits to certain employees.

The Company's pension funding practice is to contribute at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. Further, the Company will consider additional cash contributions and/or available prefunding balances if needed to avoid "at risk" status and benefit restrictions under the Pension Protection Act of 2006 ("PPA"). The Company may also consider increased contributions, based on other financial requirements and the plans' funded position. Pension expense in excess of the amount contributed to the pension plans is deferred by certain regulated subsidiaries pending future recovery in rates charged for utility services as contributions are made to the plans. See Note 3—Regulatory Matters for additional information. Pension plan assets are invested in a number of actively managed, commingled funds, and limited partnerships including equities, fixed income securities, guaranteed annuity contracts with insurance companies, real estate funds and real estate investment trusts ("REITs").

In December 2022, the Company amended the American Water Pension Plan ("AWPP"), a tax-qualified defined benefit pension plan, to restructure it as of December 31, 2022. The restructuring involved the spin-off of certain inactive participants from the existing AWPP into a separate tax-qualified defined benefit pension plan, AWPP Inactive. Benefits offered to the plan participants remain unchanged. As a result of the amendment, actuarial gains and losses associated with AWPP Inactive are amortized over the average remaining life expectancy of the inactive participants. The actuarial gains and losses associated with the AWPP will continue to be amortized over the average remaining service period for active participants. The Company remeasured the pension plan obligation and assets to reflect the amendment for each plan as of December 31, 2022.

The Company maintains other postretirement benefit plans providing varying levels of medical and life insurance to eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002. The Company's policy is to fund other postretirement benefit costs up to the amount recoverable through rates. Assets of the plans are invested in a number of actively managed funds in the form of separate accounts, commingled funds and limited partnerships, including equities and fixed income securities.

Pension Plan Assets

The investment policy guideline of the pension plan is focused on diversification, improving returns and reducing the volatility of the funded status over a long-term horizon. The investment policy guidelines of the postretirement plans focus on the appropriate strategy given the funded status of the plans. None of the Company's securities are included in pension or other postretirement benefit plan assets.

The Company uses fair value for all classes of assets in the calculation of market-related value of plan assets. As of December 31, 2023, the fair values and asset allocations of the pension plan assets include the AWPP and AWPP Inactive.

Presented in the tables below are the fair values and asset allocations of the pension plan assets as of December 31, 2023 and 2022, respectively, by asset category:

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (a)	Net Asset Value as a Practical Expedient	Percentage of Plan Assets as of December 31, 2023
Cash	$ 56	$ 56	$ —	$ —	$ —	4 %
Equity securities:						
U.S. large cap	134	23	—	—	111	9 %
U.S. small cap	37	37	—	—	—	3 %
International	235	—	—	—	235	16 %
Real estate fund	132	—	—	—	132	9 %
REITs	6	—	—	—	6	— %
Fixed income securities:						
U.S. Treasury securities and government bonds	234	171	2	—	61	16 %
Corporate bonds	531	—	531	—	—	38 %
Mortgage-backed securities	8	—	8	—	—	1 %
Municipal bonds	23	—	23	—	—	2 %
Long duration bond fund	3	—	—	—	3	— %
Guarantee annuity contracts	32	—	—	32	—	2 %
Total	$ 1,431	$ 287	$ 564	$ 32	$ 548	100 %

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (a)	Net Asset Value as a Practical Expedient (b)	Percentage of Plan Assets as of December 31, 2022
Cash	$ 36	$ 36	$ —	$ —	$ —	3 %
Equity securities:						
U.S. large cap	142	2	—	—	140	10 %
U.S. small cap	79	79	—	—	—	6 %
International	386	2	—	—	384	27 %
Real estate fund	154	—	—	—	154	11 %
REITs	6	—	—	—	6	— %
Fixed income securities:						
U.S. Treasury securities and government bonds	126	119	7	—	—	9 %
Corporate bonds	418	—	418	—	—	30 %
Mortgage-backed securities	8	—	8	—	—	1 %
Municipal bonds	21	—	21	—	—	1 %
Long duration bond fund	3	—	—	—	3	— %
Guarantee annuity contracts	34	—	—	34	—	2 %
Total	$ 1,413	$ 238	$ 454	$ 34	$ 687	100 %

(a) There were no material changes during the period for the fair value measurements using significant unobservable inputs (Level 3) for the years ended December 31, 2023 and 2022, respectively.

(b) The classification of certain assets previously presented as Level 1, 2 and 3 of $140 million, $273 million and $274 million, respectively, as of December 31, 2022, have been adjusted and are now presented as investments for which Net Asset Value (“NAV’) is used as a practical expedient to approximate fair value in accordance with ASU 2015-07 “Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)”.

The Company’s 2024 target pension plan asset allocation is 37% equity securities and 63% fixed income securities. The Company’s 2023 target pension plan asset allocation was 37% equity securities and 63% fixed income securities.

Other Postretirement Benefit Plan Assets

The Company's postretirement benefit plans have different levels of funded status and the assets are held under various trusts. The investments and risk mitigation strategies for the plans are tailored specifically for each trust. In setting new strategic asset mixes, consideration is given to the likelihood that the selected asset allocation will effectively fund the projected plan liabilities and meet the risk tolerance criteria of the Company. The Company periodically updates the long-term, strategic asset allocations for these plans through asset liability studies and uses various analytics to determine the optimal asset allocation. Considerations include plan liability characteristics, liquidity needs, funding requirements, expected rates of return and the distribution of returns.

In December 2022, the Company completed plan amendments to spin-off and merge a portion of the American Water Retiree Welfare Plan ("Retiree Welfare Plan"), with and into the Company's medical plan for active employees ("Active Medical Plan"), in order to repurpose the over-funded portion of the Bargained Retiree Voluntary Employees' Beneficiary Association ("Bargained VEBA") trust. Benefits offered to the plan participants remain unchanged. As a result of these changes, effective December 31, 2022, the Company transferred investment assets from the Bargained VEBA into the existing trust maintained for the benefit of Active Medical Plan participants ("Active VEBA"). The transfer of these Bargained VEBA investment assets into the Active VEBA permitted access to approximately $194 million of assets for purposes of paying active union employee medical benefits. The Company recorded the transfer of assets as a negative contribution and therefore did not record a gain or loss, as permitted by accounting guidance. See Note 18—Fair Value of Financial Information, for additional information on accounting for the assets as investments in debt and equity securities as of December 31, 2023 and 2022.

The Company engages third-party investment managers for all invested assets. Managers are not permitted to invest outside of the asset class (e.g., fixed income, equity, alternatives) or strategy for which they have been appointed. Investment management agreements and recurring performance and attribution analysis are used as tools to ensure investment managers invest solely within the investment strategy they have been provided. Futures and options may be used to adjust portfolio duration to align with a plan's targeted investment policy.

In order to minimize asset volatility relative to the liabilities, a portion of plan assets is allocated to long duration fixed income investments that are exposed to interest rate risk. Increases in interest rates generally will result in a decline in the value of fixed income assets while reducing the present value of the liabilities. Conversely, rate decreases will increase fixed income assets, partially offsetting the related increase in the liabilities. Within equities, risk is mitigated by constructing a portfolio that is broadly diversified by geography, market capitalization, manager mandate size, investment style and process. For the Bargained VEBA trust, its asset structure is designed to meet the cash flows of the liabilities. This design reduces the plan's exposure to changes in interest rates.

Actual allocations to each asset class vary from target allocations due to periodic investment strategy updates, market value fluctuations, the length of time it takes to fully implement investment allocations, and the timing of benefit payments and contributions. The asset allocation is rebalanced on a quarterly basis, if necessary. The Retiree Welfare Plan is funded by the Bargained VEBA trust, the Non-Bargained Retiree Voluntary Employees' Beneficiary Association ("Non-Bargained VEBA") trust, the Active VEBA trust, and the American Water Life Insurance Voluntary Employees' Beneficiary Association ("Life VEBA") Trust.

Presented in the tables below are the fair values and asset allocations of the postretirement benefit plan assets as of December 31, 2023 and 2022, respectively, by asset category:

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value as a Practical Expedient	Percentage of Plan Assets as of December 31, 2023
Bargained VEBA:						
Cash	$ 4	$ 4	$ —	$ —	$ —	4 %
Fixed income securities:						
U.S. Treasury securities and government bonds	7	7	—	—	—	7 %
Corporate bonds	86	—	86	—	—	85 %
Municipal bonds	4	—	4	—	—	4 %
Total bargained VEBA	$ 101	$ 11	$ 90	$ —	$ —	100 %
Active VEBA:						
Cash	$ 2	$ 2	$ —	$ —	$ —	6 %
Fixed income securities:						
U.S. Treasury securities and government bonds	2	2	—	—	—	6 %
Corporate bonds	26	—	26	—	—	82 %
Municipal bonds	2	—	2	—	—	6 %
Total Active VEBA	$ 32	$ 4	$ 28	$ —	$ —	100 %
Non-bargained VEBA:						
Cash	$ 2	$ 2	$ —	$ —	$ —	2 %
Equity securities:						
U.S. large cap	44	44	—	—	—	35 %
International	30	30	—	—	—	24 %
Fixed income securities:						
Municipal bonds	49	—	49	—	—	39 %
Total non-bargained VEBA	$ 125	$ 76	$ 49	$ —	$ —	100 %
Total	$ 258	$ 91	$ 167	$ —	$ —	100 %

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value as a Practical Expedient	Percentage of Plan Assets as of December 31, 2022
Bargained VEBA:						
Cash	$ 3	$ 3	$ —	$ —	$ —	2 %
Fixed income securities:						
U.S. Treasury securities and government bonds	131	72	59	—	—	97 %
Long duration bond fund	1	1	—	—	—	1 %
Total bargained VEBA	$ 135	$ 76	$ 59	$ —	$ —	100 %
Non-bargained VEBA:						
Cash	$ 1	$ 1	$ —	$ —	$ —	1 %
Equity securities:						
U.S. large cap	40	40	—	—	—	34 %
International	29	29	—	—	—	25 %
Fixed income securities:						
Municipal bonds	47	—	47	—	—	40 %
Total non-bargained VEBA	$ 117	$ 70	$ 47	$ —	$ —	100 %
Life VEBA:						
Cash	$ 2	$ 2	$ —	$ —	$ —	100 %
Fixed income securities:						
Total life VEBA	$ 2	$ 2	$ —	$ —	$ —	100 %
Total	$ 254	$ 148	$ 106	$ —	$ —	100 %

The Company's 2024 target postretirement benefit plan asset allocation for the Bargained VEBA and Active VEBA is 100% fixed income securities and for the Non-bargained VEBA is 60% equity securities and 40% fixed income securities. The Company's 2023 target postretirement benefit plan asset allocation for the Bargained VEBA and Life VEBA was 100% fixed income securities and for the Non-bargained VEBA was 60% equity securities and 40% fixed income securities.

Valuation Techniques Used to Determine Fair Value

Cash—Cash and investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, are considered cash and are included in the recurring fair value measurements hierarchy as Level 1.

Equity securities —For equity securities, the trustees obtain prices from pricing services, whose prices are obtained from direct feeds from market exchanges, that the Company is able to independently corroborate. Certain equity securities are valued based on quoted prices in active markets and categorized as Level 1. Other equities, such as certain U.S. large cap and international securities held in the pension plan, are invested in commingled funds and/or limited partnerships. These funds are valued to reflect the plan fund's interest in the fund based on the reported year-end NAV. Since NAV is not directly observable or not available on a nationally recognized securities exchange for the commingled funds and/or limited partnerships, they are not included in the fair value hierarchy as they are measured at fair value using the NAV per share (or its equivalent) practical expedient. These investments can typically be redeemed monthly or more frequently, with 30 or less days of notice and without further restrictions.

Fixed-income securities—Certain U.S. Treasury securities and government bonds have been categorized as Level 1 because they trade in highly-liquid and transparent markets and their prices can be corroborated. The fair values of corporate bonds, mortgage backed securities, and certain government bonds are based on prices that reflect observable market information, such as actual trade information of similar securities. These securities are categorized as Level 2 because the valuations are calculated using models which utilize actively traded market data that the Company can corroborate. Exchange-traded future and option positions are reported in accordance with changes in variation margins that are settled daily. Exchange-traded futures and options, for which market quotations are readily available, are valued at the last reported sale price or official closing price on the primary market or exchange on which they are traded and are classified as Level 1. Other U.S. Treasury securities are invested in commingled funds that may implement their investment strategies in a variety of ways which may include direct and/or indirect investment in securities and other instruments or assets (e.g., futures and swaps) or investment in units of other commingled funds. These funds are valued to reflect the plan fund's interest in the fund based on the reported year-end NAV. Since NAV is not directly observable or not available on a nationally recognized securities exchange for the commingled funds, they are not included in the fair value hierarchy as they are measured at fair value using the NAV per share (or its equivalent) practical expedient. These investments can typically be redeemed daily, with no prior notice and without further restrictions.

Real estate fund—Real estate funds are an investment vehicle in the form of a limited partnership primarily focused in real estate investments and are not included in the fair value hierarchy as they are measured at fair value using the NAV per share (or its equivalent) practical expedient. These investments can typically be redeemed quarterly, with 90 or less days of notice, subject to available cash.

REITs—REITs are invested in commingled funds primarily focused in publicly traded shares of real estate investment trusts. Commingled funds are valued to reflect the plan fund's interest in the fund based on the reported year-end NAV. REITs are not included in the fair value hierarchy as they are measured at fair value using the NAV per share (or its equivalent) practical expedient. These investments can typically be redeemed daily, with no prior notice and without further restrictions.

Guaranteed annuity contracts—Guaranteed annuity contracts are categorized as Level 3 because the investments are not publicly quoted. Since these market values are determined by the provider, they are not highly observable and have been categorized as Level 3.

Benefit Obligations, Plan Assets and Funded Status

Presented in the table below is a rollforward of the changes in the benefit obligation and plan assets for the two most recent years, for all plans combined:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Change in benefit obligation:				
Benefit obligation as of January 1,	$ 1,578	$ 2,294	$ 255	$ 342
Service cost	17	30	2	3
Interest cost	85	64	14	10
Plan participants' contributions	—	—	3	3
Plan amendments	—	—	—	6
Actuarial loss (gain)	67	(582)	(4)	(77)
Divestiture	—	(86)	—	(4)
Settlements	(3)	—	—	—
Gross benefits paid	(118)	(142)	(24)	(28)
Federal subsidy	—	—	1	—
Other adjustments	(4)	—	—	—
Benefit obligation as of December 31,	$ 1,622	$ 1,578	$ 247	$ 255
Change in plan assets:				
Fair value of plan assets as of January 1,	$ 1,413	$ 1,991	$ 254	$ 538
Actual return on plan assets	93	(401)	22	(68)
Employer contributions	46	39	3	12
Plan participants' contributions	—	—	3	3
VEBA transfer	—	—	—	(194)
Divestiture	—	(74)	—	(9)
Settlements	(3)	—	—	—
Benefits paid	(118)	(142)	(24)	(28)
Fair value of plan assets as of December 31,	$ 1,431	$ 1,413	$ 258	$ 254
Funded value as of December 31,	$ (191)	$ (165)	$ 11	$ (1)
Amounts recognized on the balance sheet:				
Noncurrent asset	$ 73	$ 75	$ 12	$ —
Current liability	(2)	(5)	—	—
Noncurrent liability	(262)	(235)	(1)	(1)
Net amount recognized	$ (191)	$ (165)	$ 11	$ (1)

Presented in the table below are the components of accumulated other comprehensive income and regulatory assets that have not been recognized as components of periodic benefit costs as of December 31:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Net actuarial loss	$ 340	$ 289	$ 30	$ 45
Prior service credit	(8)	(10)	(115)	(145)
Net amount recognized	$ 332	$ 279	$ (85)	$ (100)
Regulatory assets (liabilities)	$ 300	$ 251	$ (85)	$ (100)
Accumulated other comprehensive income	32	28	—	—
Total	$ 332	$ 279	$ (85)	$ (100)

Presented in the tables below are the aggregate projected benefit obligation, accumulated benefit obligation and aggregate fair value of plan assets for pension plans with a projected obligation in excess of plan assets as of December 31, 2023 and 2022:

	Projected Benefit Obligation Exceeds the Fair Value of Plans' Assets	
	2023	2022
Projected benefit obligation	$ 952	$ 872
Fair value of plan assets	688	632

	Accumulated Benefit Obligation Exceeds the Fair Value of Plans' Assets	
	2023	2022
Accumulated benefit obligation	$ 875	$ 793
Fair value of plan assets	688	632

The accumulated postretirement plan assets exceed benefit obligations for the Company's other postretirement benefit plans, except for the Northern Illinois Retiree Welfare Plan, of which the accumulated postretirement benefit obligation is inconsequential for all periods presented.

Contributions

The PPA requires that defined benefit plans contribute to 100% of the current liability funding target over seven years. Defined benefit plans with a funding status of less than 80% of the current liability are defined as being "at risk" and additional funding requirements and benefit restrictions may apply. The Company's qualified defined benefit plan is currently funded above the at-risk threshold, and therefore the Company expects that the plans will not be subject to the "at risk" funding requirements of the PPA. The Company is proactively monitoring the plan's funded status and projected contributions under the law to appropriately manage the potential impact on cash requirements.

Minimum funding requirements for the qualified defined benefit pension plan are determined by government regulations and not by accounting pronouncements. The Company plans to contribute amounts at least equal to or greater than the minimum required contributions or the normal cost in 2024 to the qualified pension plans. Contributions may be in the form of cash contributions as well as available prefunding balances.

Presented in the table below is information about the expected cash flows for the pension and postretirement benefit plans:

	Pension Benefits	Other Benefits
2024 expected employer contributions:		
To plan trusts	$ 44	$ —
To plan participants	2	—

Estimated Future Benefit Payments

Presented in the table below are the net benefits expected to be paid from the plan assets or the Company's assets:

	Pension Benefits	Other Benefits	
	Expected Benefit Payments	Expected Benefit Payments	Expected Federal Subsidy Payments
2024	$ 119	$ 23	$ 1
2025	122	23	1
2026	123	23	1
2027	125	23	1
2028	125	22	1
2029-2033	617	96	3

Because the above amounts are net benefits, plan participants' contributions have been excluded from the expected benefits.

Assumptions

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

Presented in the table below are the significant assumptions related to the pension and other postretirement benefit plans:

	Pension Benefits			Other Benefits		
	2023	2022	2021	2023	2022	2021
Weighted average assumptions used to determine December 31 benefit obligations:						
Discount rate	5.18%	5.58%	2.94%	5.22%	5.60%	2.90%
Rate of compensation increase	3.51%	3.51%	3.51%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from	graded from	graded from
				6.75% in 2024	7.00% in 2023	6.00% in 2022
				to 5.00% in 2031+	to 5.00% in 2031+	to 5.00% in 2026+
Weighted average assumptions used to determine net periodic cost:						
Discount rate	5.58%	2.94%	2.74%	5.60%	2.90%	2.56%
Expected return on plan assets	6.79%	6.50%	6.50%	5.00%	3.60%	3.67%
Rate of compensation increase	3.51%	3.51%	3.51%	N/A	N/A	N/A
Medical trend	N/A	N/A	N/A	graded from	graded from	graded from
				7.00% in 2023	6.00% in 2022	6.25% in 2021
				to 5.00% in 2031+	to 5.00% in 2026+	to 5.00% in 2026+

NOTE "N/A" in the table above means assumption is not applicable.

The discount rate assumption was determined for the pension and postretirement benefit plans independently. The Company uses an approach that approximates the process of settlement of obligations tailored to the plans' expected cash flows by matching the plans' cash flows to the coupons and expected maturity values of individually selected bonds. Historically, for each plan, the discount rate was developed at the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

The expected long-term rate of return on plan assets is based on historical and projected rates of return, prior to administrative and investment management fees, for current and planned asset classes in the plans' investment portfolios. Assumed projected rates of return for each of the plans' projected asset classes were selected after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. Based on the target asset allocation for each asset class, the overall expected rate of return for the portfolio was developed, adjusted for historical and expected experience of active portfolio management results compared to the benchmark returns. The Company's pension expense increases as the expected return on assets decreases. The Company used a weighted average expected return on plan assets of 6.79% to estimate its 2023 pension benefit costs, and an expected blended return based on weighted assets of 5.00% to estimate its 2023 other postretirement benefit costs.

For the years ended December 31, 2023, 2022 and 2021, the Company's mortality assumption utilized the Pri-2012 base mortality table with the MP-2021 mortality improvement scale.

Components of Net Periodic Benefit Cost

Presented in the table below are the components of net periodic benefit costs for the years ended December 31:

	2023	2022	2021
Components of net periodic pension benefit cost (credit):			
Service cost	$ 17	$ 30	$ 36
Interest cost	85	64	64
Expected return on plan assets	(94)	(122)	(126)
Amortization of prior service (credit) cost	(3)	(3)	(3)
Amortization of actuarial loss	13	21	27
Settlements	1	—	—
Net periodic pension benefit cost (credit)	$ 19	$ (10)	$ (2)
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Current year actuarial (gain) loss	$ 3	$ (14)	$ 1
Amortization of actuarial loss	(4)	(3)	(4)
Total recognized in other comprehensive income	(1)	(17)	(3)
Total recognized in net periodic benefit cost (credit) and other comprehensive income	$ 18	$ (27)	$ (5)
Components of net periodic other postretirement benefit (credit) cost:			
Service cost	$ 2	$ 3	$ 4
Interest cost	14	10	10
Expected return on plan assets	(12)	(19)	(21)
Amortization of prior service credit	(31)	(31)	(32)
Amortization of actuarial loss	2	—	—
Net periodic other postretirement benefit (credit) cost	$ (25)	$ (37)	$ (39)

Savings Plans for Employees

The Company maintains 401(k) savings plans that allow employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006, the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. The Company's 401(k) savings plan expenses totaled $14 million, $13 million and $14 million for 2023, 2022 and 2021, respectively. Additionally, the Company's 5.25% of base pay defined contribution benefit expenses totaled $17 million, $16 million and $16 million for 2023, 2022 and 2021, respectively. All of the Company's contributions are invested in one or more funds at the direction of the employees.

Note 16: Commitments and Contingencies

Commitments have been made in connection with certain construction programs. The estimated capital expenditures required under legal and binding contractual obligations amounted to $902 million as of December 31, 2023.

The Company's regulated subsidiaries maintain agreements with other water purveyors for the purchase of water to supplement their water supply. Presented in the table below are the future annual commitments related to minimum quantities of purchased water having non-cancelable contracts:

	Amount
2024	$ 71
2025	70
2026	64
2027	57
2028	57
Thereafter	764

The Company enters into agreements for the provision of services to water and wastewater facilities for the U.S. military, municipalities and other customers. See Note 4—Revenue Recognition for additional information regarding the Company's performance obligations.

Contingencies

The Company is routinely involved in legal actions incident to the normal conduct of its business. As of December 31, 2023, 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 associated with such actions, which can be reasonably estimated, is $3 million. For certain legal actions, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such legal actions, other than as described in this Note 16—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, the court heard oral argument on the motions but issued no decision. The court instead requested additional briefing and a second oral argument, deadlines for which have not yet been set.

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 1,100 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 (the "first three 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 first three lawsuits before a single judge in Kanawha County Circuit Court. That motion remains pending.

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. These motions remain pending.

On December 20, 2023, Mountaineer Gas filed answers to each of the first three 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. 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. These motions remain pending.

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. As of January 31, 2024, a total of 412 Mountaineer Gas customers completed this claims process and 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. Both general investigations remain pending.

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 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 $241 million in aggregate costs as of December 31, 2023, related to the Water Supply Project, which includes $72 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 have been scheduled for 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.

Proposed Acquisition of Monterey System Assets — Potential Condemnation

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

In February 2021, the MPWMD filed an application with the Local Agency Formation Commission of Monterey County ("LAFCO") seeking approval to become a retail water provider and annex approximately 58 parcels of land into the MPWMD's boundaries. In June 2021, LAFCO's commissioners voted to require a third-party independent financial study as to the feasibility of an acquisition by the MPWMD of the Monterey system assets. In December 2021, LAFCO's commissioners denied the MPWMD's application to become a retail water provider, determining that the MPWMD does not have the authority to proceed with a condemnation of the Monterey system assets. 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 water system assets) and to reconsider the application in compliance with all applicable law. The court held that LAFCO incorrectly applied two statutory standards and noted a lack of sufficient evidence to support certain of LAFCO's factual findings. 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. Cal Am is evaluating potential additional actions to contest the writ of mandate and 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.

Potential Condemnation Actions by MPWMD

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. While the Company cannot currently predict the outcome of this 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 the MPWMD's eminent domain 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 December 31, 2023, $0.5 million of the aggregate Settlement amount of $126 million remains reflected in accrued liabilities, and $0.5 million in an offsetting insurance receivable remains reflected in other current assets on the Consolidated Balance Sheets pending resolution of all asserted actual or potential claims associated with this matter. The amount reflected in accrued liabilities reflects the status of the liability and the offsetting insurance receivable reflected in other current assets, each as of December 31, 2023.

Note 17: 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 years ended December 31:

	2023	2022	2021
Numerator:			
Net income attributable to common shareholders	$ 944	$ 820	$ 1,263
Denominator:			
Weighted average common shares outstanding—Basic	193	182	182
Effect of dilutive common stock equivalents	—	—	—
Weighted average common shares outstanding—Diluted	193	182	182

The effect of dilutive common stock equivalents is related to outstanding stock options, RSUs and PSUs granted under the Company's 2007 Plan and outstanding RSUs and PSUs granted under the Company's 2017 Omnibus Plan, as well as estimated shares to be purchased under the ESPP. Less than one million share-based awards were excluded from the computation of diluted EPS for the years ended December 31, 2023, 2022 and 2021, 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 all periods presented, there was no dilution resulting from the Notes. See Note 11—Long-Term Debt for additional information relating to the Notes.

Note 18: 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 HOS — 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 $720 million as of December 31, 2023 and 2022. This amount represents the principal amount owed under the secured seller note, for which the Company expects to receive full payment. The accounting fair value measurement of the secured seller note approximated $704 million and $686 million as of December 31, 2023 and 2022, respectively. The accounting fair value measurement is an estimate that is reflective of changes in benchmark interest rates. The secured seller note is classified as Level 3 within the fair value hierarchy. On February 2, 2024, the secured seller note from the sale of HOS was amended to increase the principal amount from $720 million to $795 million, in full satisfaction of a $75 million contingent cash payment. See Note 5—Acquisitions and Divestitures for additional information.

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 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

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

Fair Value Measurements

To increase consistency and comparability in fair value measurements, GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Financial assets and liabilities utilizing Level 1 inputs include active exchange-traded equity securities, exchange-based derivatives, mutual funds and money market funds.

Level 2—Inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level 2 inputs include fixed income securities, non-exchange-based derivatives, commingled investment funds not subject to purchase and sale restrictions and fair-value hedges.

Level 3—Unobservable inputs, such as internally-developed pricing models for the asset or liability due to little or no market activity for the asset or liability. Financial assets and liabilities utilizing Level 3 inputs include infrequently-traded non-exchange-based derivatives and commingled investment funds subject to purchase and sale restrictions.

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 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

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

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

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

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

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

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

Other investments—As a result of the Retiree Welfare Plan changes discussed in Note 15—Employee Benefits, effective December 31, 2022, the Company transferred investment assets from the Bargained VEBA into the existing trust maintained for the benefit of the Active VEBA. The transfer of these Bargained VEBA investment assets into the Active VEBA permits access to approximately $194 million of assets for purposes of paying active union employee medical benefits.

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 $62 million and $67 million in other current assets, as of December 31, 2023 and 2022, respectively, and $111 million and $147 million in other long-term assets, as of December 31, 2023 and 2022, respectively. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported in other comprehensive income until realized.

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

	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

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

The fair value of the Company’s available-for-sale fixed income securities, summarized by contractual maturities, as of December 31, 2023, is as follows:

	Amount
Other investments - Available-for-sale fixed-income securities	
Less than one year	$ 83
1 year - 5 years	50
5 years - 10 years	4
Greater than 10 years	9
Total	$ 146

Contingent cash payment from the sale of HOS— The Company’s contingent cash payment derivative included as part of the consideration from the sale of HOS is included in other current assets on the Consolidated Balance Sheets as of December 31, 2022. The accounting fair value measurement of the contingent cash payment was $72 million as of December 31, 2022, which was reflective of changes in the benchmark interest rate and was estimated using the probability of the outcome of receipt of the $75 million, a Level 3 input.

As of December 31, 2023, the contingent cash payment from the sale of HOS is accounted for as a receivable, as the conditions have been satisfied. The carrying amount of the receivable is included in other long-term assets on the Consolidated Balance Sheets as December 31, 2023, which approximates fair value. On February 2, 2024, the secured seller note from the sale of HOS was amended to increase the principal amount from $720 million to $795 million, in full satisfaction of the $75 million contingent cash payment. See Note 5—Acquisitions and Divestitures for additional information.

Note 19: 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 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 and $145 million as of December 31, 2023 and 2022, respectively. The Company determined that the finance lease obligations and the investments in IDBs meet the conditions for offsetting, and as such, are reported net on the Consolidated Balance Sheets and 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 $4 million in 2024 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 $11 million, $12 million and $13 million for the years ended December 31, 2023, 2022 and 2021, respectively.

For the year ended December 31, 2023, cash paid for amounts in lease liabilities, which includes operating cash flows from operating leases, was $11 million. For the year ended December 31, 2023, ROU assets obtained in exchange for new operating lease liabilities was $11 million.

As of December 31, 2023, the weighted-average remaining lease term of the operating leases was 17 years, and the weighted-average discount rate of the operating leases was 4%.

The future maturities of lease liabilities at December 31, 2023, were $10 million in 2024, $10 million in 2025, $9 million in 2026, $8 million in 2027, $6 million in 2028 and $76 million thereafter. At December 31, 2023, imputed interest was $39 million.

Note 20: 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 its businesses primarily through one reportable segment, the Regulated Businesses segment. The Regulated Businesses segment is the largest component of the Company’s business and includes subsidiaries that provide water and wastewater services to customers in 14 states.

The Company also operates other businesses, primarily MSG, which provide water and wastewater services to the U.S. government on military installations, as well as municipalities. These other businesses do not meet the criteria of a reportable segment in accordance with GAAP, and are collectively presented throughout this Annual Report on Form 10-K within “Other,” which is consistent with how management assesses the results of these businesses. The Company’s former HOS business, which was sold in the fourth quarter of 2021, was included in “Market-Based Businesses” in the Company’s Form 10-K for the year ended December 31, 2021. As a result of the sale of HOS, the categories which were previously shown as “Market-Based Businesses” and “Other” have been combined and are shown as Other. Segment results for the year ended December 31, 2021, have been adjusted retrospectively to reflect this change.

The accounting policies of the segments are the same as those described in Note 2—Significant Accounting Policies. The Regulated Businesses segment includes intercompany costs that are allocated by Service Company and intercompany interest that is charged by AWCC, both of which are eliminated to reconcile to the Consolidated Statements of Operations. Inter-segment revenues include the sale of water from a regulated subsidiary to subsidiaries within Other, leased office space, and furniture and equipment provided by subsidiaries within Other to regulated subsidiaries. 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 and for the years ended December 31:

	2023		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 3,920	$ 314	$ 4,234
Depreciation and amortization	693	11	704
Total operating expenses, net	2,421	309	2,730
Interest expense	(364)	(96)	(460)
Interest income	28	45	73
Provision for (benefit from) income taxes	259	(7)	252
Net income (loss) attributable to common shareholders	971	(27)	944
Total assets	27,480	2,818	30,298
Cash paid for capital expenditures	2,551	24	2,575

	2022		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 3,505	$ 287	$ 3,792
Depreciation and amortization	633	16	649
Total operating expenses, net	2,242	277	2,519
Interest expense	(314)	(119)	(433)
Interest income	2	50	52
Gain on sale of businesses	—	19	19
Provision for income taxes	188	—	188
Net income (loss) attributable to common shareholders	854	(34)	820
Total assets	25,038	2,749	27,787
Cash paid for capital expenditures	2,284	13	2,297

	2021		
	Regulated Businesses	Other	Consolidated
Operating revenues	$ 3,384	$ 546	$ 3,930
Depreciation and amortization	601	35	636
Total operating expenses, net	2,227	507	2,734
Interest expense	(290)	(113)	(403)
Interest income	1	3	4
(Loss) or gain on sale of businesses	(1)	748	747
Provision for income taxes	172	205	377
Net income attributable to common shareholders	789	474	1,263
Total assets	23,365	2,710	26,075
Cash paid for capital expenditures	1,747	17	1,764

Note 21: Unaudited Quarterly Data

Presented in the tables below are supplemental, unaudited, consolidated, quarterly financial data for each of the four quarters in the years ended December 31, 2023 and 2022, respectively. The operating results for any quarter are not indicative of results that may be expected for a full year or any future periods.

	2023			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$ 938	$ 1,097	$ 1,167	$ 1,032
Operating income	295	432	478	299
Net income attributable to common shareholders	170	280	323	171
Basic earnings per share: (a)				
Net income attributable to common shareholders	$ 0.91	$ 1.44	$ 1.66	$ 0.88
Diluted earnings per share:				
Net income attributable to common shareholders	0.91	1.44	1.66	0.88

(a) Amounts may not sum due to rounding.

	2022			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$ 842	$ 937	$ 1,082	$ 931
Operating income	246	327	439	261
Net income attributable to common shareholders	158	218	297	147
Basic earnings per share: (a)				
Net income attributable to common shareholders	$ 0.87	$ 1.20	$ 1.63	$ 0.81
Diluted earnings per share:				
Net income attributable to common shareholders	0.87	1.20	1.63	0.81

(a) Amounts may not sum due to rounding.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including its Chief Executive Officer and its Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act as of the end of the period covered by this report.

Based on that evaluation, the Company's Chief Executive Officer and its Chief Financial Officer have concluded that, as of December 31, 2023, the Company's disclosure controls and procedures were effective at a reasonable level of assurance. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits 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.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. The Company's internal control over financial reporting is a process designed by or under the supervision of the Company's Chief Executive Officer and its Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect its transactions and dispositions of its assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of its management and its directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of its assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management, including the Company's Chief Executive Officer and its Chief Financial Officer, assessed the effectiveness of its internal control over financial reporting, as of December 31, 2023, using the criteria described in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on the Company's evaluation under the framework in *Internal Control—Integrated Framework (2013)*, its management concluded that its internal control over financial reporting was effective as of December 31, 2023.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2023, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing in Item 8—Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

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 its last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On February 8, 2024, Karl F. Kurz, the Company's Board Chair, was notified by Admiral James G. Stavridis of his decision to resign as a member of the Board of Directors of the Company (the "Board"), effective as of February 12, 2024. Admiral Stavridis's notification stated that he was resigning to focus on all of his professional and personal obligations and that he did not have any disagreements with the Company on any matter relating to the Company's operations, policies or practices. Admiral Stavridis had been a director of the Company since 2018 and served as Chair of the Safety, Environmental, Technology and Operations Committee (the "SETO Committee") since 2021. At the effective time of his resignation, Admiral Stavridis also had served as a member of the Nominating/Corporate Governance Committee. The Company wishes to thank Admiral Stavridis for his many years of service to the Board.

On February 14, 2024, upon the recommendation of the Nominating/Corporate Governance Committee, the Board reduced the size of the Board from ten to nine members and appointed Board member Michael L. Marberry to replace Admiral Stavridis both as Chair of the SETO Committee and as a member of the Nominating/Corporate Governance Committee.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item and not set forth below or in Item 1—Business—Executive Officers of this Annual Report on Form 10-K, is incorporated by reference from the Company's Proxy Statement for the 2024 Annual Meeting of Shareholders, to be filed with the SEC within 120 days following the end of the fiscal year covered by this report, under the captions entitled "Board of Directors and Corporate Governance" and "Proposal 1—Election of Directors."

The Company has adopted a Code of Ethics, which applies to directors, officers and employees. The full text of the Code of Ethics is publicly available on the Company's website at *https://amwater.com*. The Company intends to post on its website any amendments to the Code of Ethics and any waivers of such provisions granted to certain principal officers.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2024 Annual Meeting of Shareholders, under the captions entitled "Board of Directors and Corporate Governance—Board Role in Risk Oversight—Executive Development and Compensation Committee Role," "Proposal 1—Election of Directors—Director Compensation Table," "Compensation Discussion and Analysis," "Executive Compensation" (excluding the subsection "Pay Versus Performance"), "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report" (with the latter report being furnished, and not filed, in this Annual Report on Form 10-K).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item setting forth the security ownership of certain beneficial owners and management is incorporated by reference in the Company's Proxy Statement for the 2024 Annual Meeting of Shareholders, under the captions entitled "Certain Beneficial Ownership Matters—Security Ownership of Management," "Certain Beneficial Ownership Matters—Security Ownership of Certain Beneficial Owners" and "Equity Compensation Plan Information."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2024 Annual Meeting of Shareholders, under the caption entitled "Board of Directors and Corporate Governance—Board Review of Related Person Transactions" and "Proposal 1—Election of Directors—Director Independence."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference in the Company's Proxy Statement for the 2024 Annual Meeting of Shareholders, under the caption entitled "Proposal 3—Ratification of Appointment of Independent Registered Public Accounting Firm—Fees Paid to Independent Registered Public Accounting Firm" and "Proposal 3—Ratification of Appointment of Independent Registered Public Accounting Firm—Pre-Approval of Services Provided by Independent Registered Public Accounting Firm."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents have been filed as a part of this Annual Report on Form 10-K:

1. The financial statements listed in the "Index to Consolidated Financial Statements" contained in Item 8—Financial Statements and Supplementary Data of this Form 10-K are hereby incorporated by reference in response to this Item 15(a).
2. Financial statement schedules have been omitted since they are either not required or are not applicable as the information is otherwise included in the financial statements or notes thereto.
3. Exhibits. The list of documents contained in "Exhibit Index" is provided in response to this Item 15(a). The warranties, representations and covenants contained in any of the agreements included or incorporated by reference herein or which appear as exhibits hereto should not be relied upon by buyers, sellers or holders of the Company's or its subsidiaries' securities and are not intended as warranties, representations or covenants to any individual or entity except as specifically set forth in such agreement.

The responses to Items 15(b) and (c) of Form 10-K are included above in response to Item 15(a).

ITEM 16. FORM 10-K SUMMARY

None.

EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1.1#	Stock Purchase Agreement, dated November 20, 2019, by and among American Water Works Company, Inc., New York American Water Company, Inc. and Liberty Utilities Co. (incorporated by reference to Exhibit 2.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed November 20, 2019).
2.1.2	Letter Agreement, dated June 29, 2021, by and among American Water Works Company, Inc., Liberty Utilities (Eastern Water Holdings) Corp. and New York American Water Company, Inc., with respect to the Stock Purchase Agreement, dated November 20, 2019, by and among American Water Works Company, Inc., New York American Water Company, Inc. and Liberty Utilities Co. (incorporated by reference to Exhibit 2.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed June 29, 2021).
2.2#	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 American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed December 8, 2022).
4.1	Indenture, dated as of October 22, 2007, between American Water Capital Corp. and Computershare Trust Company, N.A., as successor to Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.4 to American Water Capital Corp.'s Registration Statement on Form S-4, File No. 333-148284, and American Water Works Company, Inc.'s Registration Statement on Form S-4, File No. 333-148284-01, filed December 21, 2007).
4.2	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).
4.3	Indenture, dated as of June 29, 2023, among American Water Capital Corp., American Water Works Company, Inc. and U.S. Bank Trust Company, National Association. (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed June 29, 2023).
4.4	Form of 3.625% Exchangeable Senior Note due 2026 (included in Exhibit 4.3) (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 June 29, 2023).
4.5	Officers' Certificate, dated December 17, 2012, establishing the 4.300% Senior Notes due 2042 (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 17, 2012).
4.6	Officers' Certificate, dated November 20, 2013, establishing the 3.850% Senior Notes due 2024 (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 November 20, 2013).
4.7	Officers' Certificate, dated August 14, 2014, establishing the 3.400% Senior Notes due 2025 (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 August 14, 2014).
4.8	Officers' Certificate, dated August 14, 2014, providing for a further issuance of the 4.300% Senior Notes due 2042 (incorporated by reference to Exhibit 4.3 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed August 14, 2014).
4.9	Officers' Certificate, dated August 13, 2015, establishing the 4.300% Senior Notes due 2045 (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 August 13, 2015).
4.10	Officers' Certificate, dated August 13, 2015, providing for a further issuance of the 3.400% Senior Notes due 2025 (incorporated by reference to Exhibit 4.3 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed August 13, 2015).
4.11	Officers' Certificate, dated November 17, 2016, establishing the 3.000% Senior Notes due 2026 (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 November 17, 2016).

Exhibit Number	Exhibit Description
4.12	Officers' Certificate, dated November 17, 2016, establishing the 4.000% Senior Notes due 2046 (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 November 17, 2016).
4.13	Officers' Certificate, dated August 10, 2017, establishing the 2.950% Senior Notes due 2027 (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 August 10, 2017).
4.14	Officers' Certificate, dated August 10, 2017, establishing the 3.750% Senior Notes due 2047 (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 August 10, 2017).
4.15	Officer's Certificate, dated August 9, 2018, establishing the 3.750% Senior Notes due 2028 (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 August 9, 2018).
4.16	Officer's Certificate, dated August 9, 2018, establishing the 4.200% Senior Notes due 2048 (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 August 9, 2018).
4.17	Officers' Certificate, dated May 13, 2019, establishing the 3.450% Senior Notes due 2029 (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 on May 13, 2019).
4.18	Officers' Certificate, dated May 13, 2019, establishing the 4.150% Senior Notes due 2049 (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 on May 13, 2019).
4.19	Officers' Certificate, dated April 14, 2020, establishing the 2.800% Senior Notes due 2030 (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 April 14, 2020).
4.20	Officers' Certificate, dated April 14, 2020, establishing the 3.450% Senior Notes due 2050 (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 April 14, 2020).
4.21	Officers' Certificate, dated May 14, 2021, establishing the 2.300% Senior Notes due 2031 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed on May 14, 2021).
4.22	Officers' Certificate, dated May 14, 2021, establishing the 3.250% Senior Notes due 2051 (incorporated by reference to Exhibit 4.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed on May 14, 2021).
4.23	Officers' Certificate, dated May 5, 2022, establishing the 4.450% Senior Notes due 2032 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed on May 5, 2022).
4.24	Description of American Water Works Company, Inc.'s Equity Securities (filed herewith).
10.1.1#	Third Amended and Restated Credit Agreement, dated as of October 26, 2022, by and among American Water Works Company, Inc., American Water Capital Corp., each of the Lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, JPMorgan Chase Bank, N.A., as syndication agent, and Mizuho Bank, Ltd., PNC Bank, National Association, and U.S. Bank National Association, as co-documentation agents (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed on October 31, 2022).
10.1.2	First Amendment, dated as of June 21, 2023, to the Third Amended and Restated Credit Agreement, dated as of October 26, 2022, by and among American Water Works Company, Inc., American Water Capital Corp., each of the Lenders party thereto, Wells Fargo Bank, National Association, as administrative agent, JPMorgan Chase Bank, N.A., as syndication agent, and Mizuho Bank, Ltd., PNC Bank, National Association, U.S. Bank National Association, and Bank of America, N.A., as co-documentation agents (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed July 26, 2023).
10.1.3	Extension Agreement, dated October 26, 2023, by and among American Water Works Company, Inc., American Water Capital Corp., each of the Lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 to American Water Company Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed November 1, 2023).
10.2	Support Agreement, dated June 22, 2000, together with First Amendment to Support Agreement, dated July 26, 2000, by and between American Water Works Company, Inc. and American Water Capital Corp. (incorporated by reference to Exhibit 10.3 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.3*	Offer Letter for Employment, dated as of February 2, 2022, between American Water Works Company, Inc. and M. Susan Hardwick (incorporated by reference to Exhibit 10.3 to American Water Works Company, Inc.'s Annual Report on Form 10-K, File No. 001-34028, filed February 16, 2022).
10.4*	Offer Letter for Employment, dated February 16, 2021, between American Water Works Company, Inc. and Cheryl Norton (incorporated by reference to Exhibit 10.13 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed May 3, 2021).
10.5*	Offer Letter for Employment, dated January 21, 2022, between American Water Works Company, Inc. and James H. Gallegos (incorporated by reference to Exhibit 10.11 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed April 27, 2022).
10.6*	Offer Letter for Employment, dated April 27, 2022, between American Water Works Company, Inc. and John C. Griffith (incorporated by reference to Exhibit 10.1 to American Water Works Company, Inc.'s Quarterly Report on Form 10-Q, File No. 001-34028, filed July 27, 2022).
10.7*	Amended and Restated American Water Works Company, Inc. Deferred Compensation Plan, dated as of January 1, 2001 (incorporated by reference to Exhibit 10.9 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.8*	Nonqualified Deferred Compensation Plan for Non-Employee Directors of American Water Works Company, Inc., as amended and restated, effective as of January 1, 2009 (incorporated by reference to Exhibit 10.38 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-155245, filed November 18, 2008).
10.9.1*	Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and Its Designated Subsidiaries, as amended and restated, effective as of June 1, 2018 (incorporated by reference to Exhibit 10.9.3 to American Water Works Company, Inc.'s Annual Report on Form 10-K, File No. 001-34028, filed February 19, 2019).
10.9.2*	Amendment No. 2019-1 to the Nonqualified Savings and Deferred Compensation Plan for Employees of American Water Works Company, Inc. and its Designated Subsidiaries, as amended and restated, effective as of November 1, 2019 (incorporated by reference to Exhibit 4.1.2 to American Water Works Company, Inc.'s Registration Statement on Form S-8, File No. 333-235598, filed December 19. 2019).
10.10*	Amended and Restated American Water Works Company, Inc. Executive Retirement Plan, dated as of March 1, 2007 (incorporated by reference to Exhibit 10.8 to American Water Capital Corp.'s Registration Statement on Form S-1, File No. 333-145757-01, and American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145757, filed October 11, 2007).
10.11.1*	American Water Works Company, Inc. Annual Incentive Plan (incorporated by reference to Appendix C to American Water Works Company, Inc.'s Definitive Proxy Statement, File No. 001-34028, filed March 27, 2015).