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American Water Works Company, Inc.  
Form 10-K  
February 25, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2014

OR

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

For the transition period from                      to

Commission file: number 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

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

1025 Laurel Oak Road, Voorhees, NJ	08043
(Address of principal executive offices)	(Zip Code)

(856) 346-8200

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common stock, par value \$0.01 per share	New York Stock Exchange, Inc.

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Small reporting company ☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Common Stock, \$0.01 par value—\$8,858,523,983 as of June 30, 2014.

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

Common Stock, \$0.01 par value per share—179,787,780 shares, as of February 19, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Company's Proxy Statement for the Company's 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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## FORWARD-LOOKING STATEMENTS

We have made statements under the captions “Business,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in other sections of this Annual Report on Form 10-K (“Form 10-K”), or incorporated certain statements by reference into this Form 10-K, that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as “intend,” “plan,” “estimate,” “believe,” “anticipate,” “expect,” “predict,” “project,” “forecast,” “outlook,” “future,” “potential,” “continue,” “may,” “can,” “could,” and similar expressions. Forward-looking statements may relate to, among other things, our future financial performance, including our operation and maintenance (“O&M”) efficiency ratio, cash flows, our growth and portfolio optimization strategies, our projected capital expenditures and related funding requirements, our ability to repay debt, our projected strategy to finance current operations and growth initiatives, the impact of legal proceedings and potential fines and penalties, business process and technology improvement initiatives, trends in our industry, regulatory or legal developments or rate adjustments, including rate case filings, filings for infrastructure surcharges and filings to address regulatory lag.

Forward-looking statements are predictions based on our current expectations and assumptions regarding future events. They are not guarantees of any outcomes, financial results or levels of performance and you are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of risks and uncertainties, and new risks and uncertainties of which we are not currently aware or which we do not currently perceive may arise in the future from time to time. Should any of these risks or uncertainties materialize, or should any of our expectations or assumptions prove incorrect, then our results may vary materially from those discussed in the forward-looking statements herein. Factors that could cause actual results to differ from those discussed in forward-looking statements include, but are not limited to, the factors discussed under the caption “Risk Factors” and the following factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the timeliness of regulatory commissions’ actions concerning rates, permitting and other decisions;
- changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts;
- changes in laws, governmental regulations and policies, including environmental, health and water quality and public utility regulations and policies;
- weather conditions, patterns, events or natural disasters, including drought or abnormally high rainfall, strong winds, coastal and intercoastal flooding, earthquakes, landslides, hurricanes and tornados;
- the outcome of litigation and government action related to recent events in West Virginia;
- our ability to appropriately maintain current infrastructure, including our technology systems, and manage expansion of our business;
- our ability to obtain permits and other approvals for projects;
- changes in our capital requirements;
- our ability to control operating expenses and to achieve efficiencies in our operations;
- the intentional or unintentional actions of a third party, including contamination of our water supplies and attacks on our computer systems;
- our ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our operations;
- our ability to successfully acquire and integrate water and wastewater systems that are complementary to our operations and the growth of our business, including, among other core growth opportunities, concession arrangements and agreements for the provision of water services in the unregulated shale arena; cost overruns relating to improvements or the expansion of our operations;
- changes in general economic, business and financial market conditions;

- access to sufficient capital on satisfactory terms;
- fluctuations in interest rates;
- restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends;

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- fluctuations in the value of benefit plan assets and liabilities that could increase our cost and funding requirements;
- our ability to utilize our U.S. and state net operating loss carryforwards;
- migration of customers into or out of our service territories and the use by municipalities to condemn our systems through eminent domain;
- difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions;
- the incurrence of impairment charges;
- labor actions, including work stoppages;
- ability to retain and attract qualified employees; and
- civil disturbance, or terrorist threats or acts or public apprehension about future disturbances or terrorist threats or acts.

Any forward-looking statements we make, speak only as of the date of this Form 10-K. Except as required by the federal securities laws, we do not have any obligation, and we specifically disclaim any undertaking or intention, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise.



## PART I

### ITEM 1. BUSINESS

#### Our Company

Founded in 1886, American Water Works Company, Inc., (the “Company,” “American Water” or “AWW”) is a Delaware holding company. American Water is the most geographically diversified, as well as the largest publicly-traded, United States water and wastewater utility company, as measured by both operating revenues and population served. As a holding company, we conduct substantially all of our business operations through our subsidiaries. Our approximately 6,400 employees provide an estimated 15 million people with drinking water, wastewater and/or other water-related services in 47 states and one Canadian province.

#### Operating Segments

We report our results of operations in two operating segments: the Regulated Businesses and the Market-Based Operations. Additional information with respect to our operating segment results is included in the section entitled “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 18 of the Consolidated Financial Statements.

#### Regulated Businesses

Our primary business involves the ownership of subsidiaries that provide water and wastewater utility services to residential, commercial, industrial and other customers, including sale for resale and public authority customers. We report the results of this business in our Regulated Businesses segment. Our subsidiaries that provide these services are generally subject to economic regulation by certain state commissions or other entities engaged in economic regulation, hereafter referred to as Public Utility Commissions, or “PUCs,” of the states in which we operate. The federal and state governments also regulate environmental, health and safety, and water quality matters.

Our Regulated Businesses segment operating revenues were \$2,674.3 million for 2014, \$2,539.9 for 2013, \$2,564.4 million for 2012, accounting for 88.8%, 90.1% and 89.9%, respectively, of total operating revenues for the same periods.

The following table sets forth our Regulated Businesses operating revenues, number of customers and an estimate of population served as of December 31, 2014:

	Operating Revenues				Estimated Population Served			
	(In millions)	% of Total	Number of Customers	% of Total	(In millions)	% of Total		
New Jersey	\$ 652.3	24.5 %	648,066	20.2 %	2.7	22.7 %		
Pennsylvania	605.4	22.6 %	666,415	20.7 %	2.2	18.5 %		

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Missouri	270.2	10.1	%	464,498	14.4	%	1.5	12.7	%
Illinois (a)	262.3	9.8	%	312,017	9.7	%	1.3	10.9	%
California	209.8	7.8	%	174,198	5.4	%	0.6	5.0	%
Indiana	200.6	7.5	%	293,666	9.1	%	1.2	10.1	%
West Virginia (b)	127.0	4.7	%	170,371	5.3	%	0.6	5.0	%
Subtotal (Top Seven States)	2,327.6	87.0	%	2,729,231	84.8	%	10.1	84.9	%
Other (c)	346.7	13.0	%	489,961	15.2	%	1.8	15.1	%
Total Regulated Businesses	\$ 2,674.3	100.0	%	3,219,192	100.0	%	11.9	100.0	%

(a) Includes Illinois-American Water Company, which we refer to as ILAWC and American Lake Water Company, also a regulated subsidiary in Illinois.

(b) Includes West Virginia-American Water Company, which we refer to as WVAWC, and its subsidiary Bluefield Valley Water Works Company.

(c) Includes data from our operating subsidiaries in the following states: Georgia, Hawaii, Iowa, Kentucky, Maryland, Michigan, New York, Tennessee and Virginia.

Overview of Networks, Facilities and Water Supply

Our Regulated Businesses operate in approximately 1,600 communities in 16 states in the United States. Our primary operating assets include 89 dams and 81 surface water treatment plants along with approximately 500 groundwater treatment plants, 1,000 groundwater wells, 100 wastewater treatment facilities, 1,200 treated water storage facilities, 1,300 pumping stations, and 48,000

miles of mains and collection pipes. Our regulated utilities own substantially all of the assets used by our Regulated Businesses. We generally own the land and physical assets used to store, extract and treat source water. Typically, we do not own the water itself, which is held in public trust and is allocated to us through contracts and allocation rights granted by federal and state agencies or through the ownership of water rights pursuant to local law. Maintaining the reliability of our networks is a key activity of our Regulated Businesses. We have ongoing infrastructure renewal programs in all states in which our Regulated Businesses operate. These programs consist of both rehabilitation of existing mains and other equipment and replacement of mains and other equipment that are damaged or have reached, or are near, the end of their useful service lives.

As noted, our Regulated Businesses are dependent upon a defined source of water supply and obtain their water supply from surface water sources such as reservoirs, lakes, rivers and streams. In addition, we also obtain water from ground water sources, such as wells, and purchase water from other water suppliers. The following chart sets forth the sources of water supply for our Regulated Businesses for 2014 by volume:

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Drought, governmental restrictions, overuse of sources of water, the protection of threatened species or habitats or other factors may limit the availability of ground and surface water. We employ a variety of measures to ensure that we have adequate sources of water supply, both in the short-term and over the long-term. The geographic diversity of our service areas tends to mitigate some of the economic effect associated with weather extremes we might encounter in any particular service territory. In any given summer, some areas may have source issues and experience drier than average weather while other areas we serve may experience wetter than average weather.

In our long-term planning, we evaluate quality, quantity, growth needs and alternate sources of water supply as well as transmission and distribution capacity. Sources of supply are seasonal in nature and weather conditions can have a pronounced effect on supply. In order to ensure that we have adequate sources of water supply, we use planning processes and maintain contingency plans to minimize the potential impact on service through a wide range of weather fluctuations. In connection with supply planning for most surface or groundwater sources, we employ models to determine safe yields under different rainfall and drought conditions. Surface and groundwater levels are routinely monitored so that supply capacity deficits may, to the extent possible, be predicted and mitigated through demand management and additional supply development.

Additionally, in California as part of the Urban Water Management Plan of 1983, water suppliers serving greater than 3,000 acre feet per year or 3,000 connections are required to submit an Urban Water Management Plan to the Department of Water Resources every five years. These plans assess water supply reliability over a 20-year planning period under normal, dry and multi-year dry periods to ensure that water suppliers have adequate water supply for current and future demands. In 2009, additional conservation elements were added to the plan that required utilities to show how they could meet a 20% demand reduction by 2020.

The percentage of finished water supply by source type for our top seven states by Regulated Businesses revenues for 2014 is as follows:

	Ground water		Surface water		Purchased Water	
New Jersey	24	%	71	%	5	%
Pennsylvania	7	%	92	%	1	%
Missouri (a)	19	%	80	%	1	%
Illinois	35	%	54	%	11	%
California (b)	66	%	—		34	%
Indiana	56	%	43	%	1	%
West Virginia	—		99	%	1	%

(a) There are limitations in our Joplin, Missouri service area where the projected source of water supply capacity is unable to meet projected peak demands under certain drought conditions. To manage this issue on the demand side, the water use of a large industrial customer can be restricted under an interruptible tariff. Additional wells have been and will be developed to address short-term supply deficiencies. Missouri-American Water Company is working with a consortium of agencies to determine a long-term supply solution for the Joplin, Missouri region.

(b) In Monterey, California, in order to augment our sources of water supply, we have implemented conservation rates and other programs to address demand. These include utilizing aquifer storage and recovery facilities to store winter water for summer use. Additionally, in other areas we are making arrangements to extend or expand our purchase of water from neighboring water providers.

The level of treatment we apply to the water varies significantly depending upon the quality of the water source and customer stipulations. Surface water sources, such as rivers, typically require significant treatment, while some groundwater sources, such as aquifers, require chemical treatment only. In addition, a small amount of treated water is purchased from neighboring water purveyors. Treated water is transported through our transmission and distribution network, which includes underground pipes, above ground storage facilities and numerous pumping facilities with the ultimate distribution of the treated water to the customers' premises.

We have installed production meters to measure the water that we deliver to our distribution network. We also employ a variety of methods of customer meter reading to monitor consumption; ranging from meters with mechanical registers where consumption is manually recorded by meter readers, to meters with electronic registers capable of transmitting consumption data to proximity devices (touch read) or via radio frequency to mobile or fixed network data collectors. The majority of new meters are able to support future advances in electronic meter reading.

Wastewater services involve the collection of wastewater from customers' premises through sewer lines. The wastewater is then transported through a sewer network to a treatment facility, where it is treated to meet required effluent standards. The treated wastewater is finally returned to the environment as effluent, and the solid waste by-product of the treatment process is disposed of in accordance with applicable standards and regulations.

#### Economic Regulation and Rate Making Process

The operations of our Regulated Businesses are generally subject to extensive economic regulation by their respective PUCs. The term "economic regulation" is intended to indicate that these state PUCs regulate the economic aspects of service to the public but do not generally establish water quality standards, which are typically set by the federal Environmental Protection Agency ("EPA") and/or state environmental authorities. State PUCs have broad authority to

regulate many of the economic and service aspects of the utilities. For example, state PUCs often issue certificates of public convenience and necessity (or similar authorizations) that may be required for a company to provide service in specific areas. They also approve the rates and conditions under which service is provided and have extensive authority to establish rules and regulations under which the utilities operate. Specific authority might differ from state to state, but in most states PUCs approve rates, accounting treatments, long-term financing programs and cost of capital, significant capital expenditures and plant additions, transactions and relationships between the regulated subsidiary and affiliated entities, reorganizations and mergers and acquisitions. In many instances, regulatory approvals are required to effect the transaction. Regulatory policies not only vary from state to state, but can change over time as well. These policies will affect the timing as well as the extent of recovery of expenses and the realized return on invested capital. Our results of operations are significantly affected by rates authorized by the PUCs in the states in which we operate, and we are subject to risks and uncertainties associated with rate case delays or inadequate rate recovery.

Economic regulation of utilities involves many competing, and occasionally conflicting, public interests and policy goals. The primary responsibility of PUCs is to promote the overall public interest by balancing the interests of customers and utility investors. Although the specific approach to economic regulation varies, certain general principles are consistent across the states in which our

regulated subsidiaries operate. Based on certain legal and regulatory principles, economic regulation is generally intended to provide a utility the right to serve specific geographic areas. In return, the utility undertakes the obligation to provide safe and adequate service to all customers within its service area and is authorized an annual revenue requirement intended to provide recovery of prudent operation and maintenance costs, depreciation and taxes and an opportunity to earn a fair return on capital investment necessary to provide service to customers.

Our operating revenue is typically determined by reference to a volumetric charge based on consumption and a base fee component set by a tariff approved by the PUC. The process to obtain approval for a change in rates generally occurs by way of a “rate case” filed by the utility with the PUC on a periodic basis. The timing of rate case filings may be determined by either periodic requirements in the regulatory jurisdiction or by the utility’s need to increase its revenue requirement to recover capital investment costs, changes in operating revenues, operating costs or other market conditions. A PUC may also initiate the filing of a rate case to conduct an investigation and may impose other conditions on the content and timing of filings under certain circumstances.

State PUCs differ with regard to the types of expenses and investments that may be recovered in rates as well as with regard to the transparency of their rate-making processes and how they reach their final rate determinations. However, in evaluating a rate case, state PUCs typically focus on a number of areas, including, the cost and prudence of investment in facilities; operating and maintenance expenses and taxes; the appropriate cost of capital and equity return; revenues or consumption at current and expected levels; allocation of the revenue requirements among customer classes; service quality and issues raised by customers.

Failure of the PUCs to recognize reasonable and prudent operating and capital costs can result in the inability of the utility to meet its debt service, provide adequate service to its customers and earn its authorized return, which can impact the operations and earnings of our Regulated Businesses. Rate cases and other rate-related proceedings can take several months to over a year to complete. Therefore, there may be delays, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating cost increase and when those costs are reflected in rates. For instance, an unexpected increase in chemical costs or new capital investment that is not reflected in the most recently completed rate case will generally not begin to be recovered by the regulated subsidiary until the effective date of the subsequent rate case. Our rate case management program is guided by the goals of obtaining efficient recovery of costs of capital, recognition of declining consumption and appropriate recovery of utility operating and maintenance costs, including costs incurred for compliance with environmental regulations. The management team at each of our Regulated Businesses anticipates the time required for the regulatory process and files rate cases with the goal of obtaining rates that reflect as closely as possible the cost of providing service at the time the rates become effective and a reasonable opportunity to earn the authorized return on invested capital, or rate base.

Our regulated subsidiaries work with legislatures and PUCs to mitigate the adverse impact of regulatory lag through the adoption of positive regulatory policies. These policies include, for example, infrastructure replacement surcharges that allow rates to change outside the context of a general rate proceeding to reflect, on a more timely basis, investments to replace infrastructure necessary to sustain high quality, reliable service. Currently, Pennsylvania, Illinois, Missouri, Indiana, New York, New Jersey and Tennessee allow the use of infrastructure surcharges. Forward-looking test year mechanisms allow us to earn, on a more current basis, our current or projected usage and costs and a rate of return on our current or projected invested capital. Some states have permitted the use of a fully forecasted test year instead of historical data to set rates. Those states are: Illinois, Kentucky, New York, Tennessee, California, Pennsylvania, Indiana, Hawaii and Virginia. In all states in which we operate on a regulated basis, PUCs have allowed utilities to update historical data for certain “known and measurable” changes that occur for some limited period of time subsequent to the historical test year. This allows utilities to take into account more current costs or capital investments in the rate-setting process. The extent to which historical data can be updated will generally vary from state to state.

Another mechanism to address issues of regulatory lag is the ability, in certain circumstances, to recover the full return on utility plant costs during the construction period, instead of capitalizing an allowance for funds used during construction. Examples of states that have allowed such recovery include Pennsylvania, Kentucky, Virginia, Illinois and California. In addition, some states, such as Indiana, allow the utility to seek pre-approval of certain capital projects and associated costs. In this pre-approval process, the PUC assesses the prudence of such projects.

Surcharge mechanisms are also available in a number of states to reflect, outside of a general rate proceeding, changes in major operating expenses which may be beyond the utility's control. For example, New Jersey, California, Virginia, Illinois and Tennessee have allowed surcharges for purchased water costs. California has allowed surcharges for power and certain other costs, and New York has allowed annual reconciliations for expenses such as power, fuel, chemicals and property taxes. Tennessee has allowed surcharges for power, chemical and Tennessee River Authority inspections fees.

Certain states have approved consolidated rates or single-tariff pricing policies. Consolidated rates or single-tariff pricing is the use of a unified rate structure for multiple water systems that are owned and operated by a single utility, but may or may not be contiguous or physically interconnected. The single-tariff pricing structure may be used fully or partially in a state, based on costs that are determined on a state-wide or intra-state regional basis, thereby moderating the impact of periodic fluctuations in local costs while

lowering administrative costs for our customers. For states that do not employ single-tariffs, we may have multiple general rate cases filed at any given point in time. Examples of states that have adopted a full or partial single-tariff pricing policy include: Pennsylvania, New Jersey, Missouri, West Virginia, Kentucky, Indiana, Illinois and Iowa. Therefore, of our seven largest states, six have some form of single-tariff pricing. Pennsylvania also permits a blending of water and wastewater rate structures, which results in single-tariff pricing among water and wastewater systems.

In some states, the PUC has implemented mechanisms to enhance utility revenue stability in light of conservation initiatives, decreasing per capita consumption or other factors. Sometimes referred to as “decoupling,” these mechanisms, to some extent, separate recoverable revenues from volumes of water sold. For example, the state of California has decoupled revenues from water sold to help achieve the state initiative to reduce water usage by 20% by 2020. This progressive regulation enables utilities to encourage water efficiency, as revenues are not tied to sales. Similarly, New York has implemented a surcharge or credit based on the difference between actual net revenues and the revenues allowed in the most recent rate order.

California also has a multi-year cost of capital proceeding outside of the general rate case process. This proceeding authorizes the utility’s capital structure and authorized rates of return, as well as provides an automatic adjustment mechanism that triggers an adjustment to the authorized cost of capital if the Moody’s utility bond index changes beyond certain thresholds on an annual basis.

We pursue positive regulatory policies as part of our rate and revenue management program to enhance our ability to provide high quality, sustainable, cost effective service to customers, to facilitate efficient recovery of our costs and investments, and to ensure positive short-term liquidity and long-term profitability for a financially stable company which benefits our customers, employees and shareholders. The ability to seek regulatory treatment as described above does not guarantee that the state PUCs will accept our proposal in the context of a particular rate case, and these policies will reduce, but not eliminate, regulatory lag associated with traditional rate making processes. However, the Company strives to use these and other regulatory policies to address issues of regulatory lag wherever appropriate. It is also our strategy to expand their use in areas where they may not currently apply.

## Customers

We have a large and geographically diverse customer base in our Regulated Businesses. An active customer is defined as a party with an active agreement to receive a specific service from a connection to our water or wastewater system as of the last business day of each monthly reporting period. Also, as in the case of apartment complexes, businesses and many homes, multiple individuals may be served by a single contract.

Residential customers make up the majority of our customer base in all of the states in which we operate. In 2014, residential customers accounted for 91.0% of the customers, 59.3% of the operating revenues and approximately 50.4% of the billed water sales of our Regulated Businesses. We also serve commercial customers, such as shops and businesses; industrial customers, such as large-scale manufacturing and production operations; and public authorities, such as government buildings and other public sector facilities, including schools. We also supply water to public fire hydrants for firefighting purposes, to private fire customers for use in fire suppression systems in office buildings and other facilities, as well as providing bulk water supplies to other water utilities for distribution to their own customers.

The vast majority of our regulated water customers are metered, which allows us to measure and bill for our customers’ water consumption, typically on a monthly basis. Our wastewater customers are billed either on a fixed charge basis or based on their water consumption.



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In fiscal year 2014, no single Regulated Businesses customer accounted for more than 10% of our consolidated annual operating revenues.

The following table sets forth the number of water and wastewater customers (by customer class) for our Regulated Businesses as of December 31, 2014, 2013, and 2012:

	December 31, 2014		2013		2012	
	Water	Wastewater	Water	Wastewater	Water	Wastewater
Residential	2,813,715	117,602	2,813,601	117,584	2,783,354	95,576
Commercial	218,314	6,221	219,510	6,287	218,988	5,477
Industrial	3,793	17	3,822	16	3,894	12
Public & other	59,249	281	58,420	259	50,702	223
Total	3,095,071	124,121	3,095,353	124,146	3,056,938	101,288

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Changes in customer growth in our Regulated Businesses is driven by (i) organic population growth or contraction in our authorized service areas; (ii) adding new customers to our regulated customer base by acquiring water and/or wastewater utility systems; and (iii) the sale of water to other community water systems. Generally, we add customers through tuck-ins of small and medium water and/or wastewater systems, in close geographic proximity to areas where we operate our Regulated Businesses, which we refer to as “tuck-ins.” We will continue to acquire water and wastewater utilities through tuck-ins. The proximity of tuck-in opportunities to our regulated footprint allows us to integrate and manage the acquired systems and operations primarily using our existing management and to achieve efficiencies. Historically, pursuing tuck-ins has been a fundamental part of our growth strategy. We intend to continue to expand our regulated footprint geographically by acquiring water and wastewater systems in our existing markets and, if appropriate, certain markets in the United States where we do not operate our Regulated Businesses. We will also selectively seek larger acquisitions that allow us to acquire multiple water and wastewater utility systems in our existing and new markets. Before entering new regulated markets, we will evaluate the regulatory environment to ensure that we will have the opportunity to achieve an appropriate rate of return on our investment while maintaining our high standards for quality, reliability and compliance with environmental, health and safety and water quality standards.

#### Seasonality

Customer usage of water is affected by weather conditions, particularly during the summer. Our water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for lawn irrigation and other outdoor uses. Summer weather that is cooler and/or wetter than average generally serves to suppress customer water demand and can reduce water operating revenues and operating income. Summer weather that is hotter and drier than average generally increases operating revenues and operating income. However, when weather conditions are extremely dry, and even if our water supplies are sufficient to serve our customers, our systems may be affected by drought-related warnings and/or water usage restrictions imposed by governmental agencies, thereby reducing customer usage and operating revenues. These restrictions may be imposed at a regional or state level and may affect our service areas, regardless of our readiness to meet unrestricted customer demands. Other factors affecting our customers’ usage of water include conservation initiatives, such as the use of more efficient household fixtures and appliances among residential consumers; declining household sizes in the United States; and changes in the economy and credit markets which could have significant impacts on our industrial and commercial customers’ operational and financial performance.

#### Competition

In our Regulated Businesses, we generally do not face direct competition in providing services in our existing markets because (i) we operate within those markets pursuant to certificates of public convenience and necessity (or similar authorizations) issued by state PUCs; and (ii) the high cost of constructing a new water and wastewater system in an existing market creates a barrier to market entry. Our Regulated Businesses do face competition from governmental agencies, other investor-owned utilities, large industrial customers with the ability to provide their own water supply/treatment process and strategic buyers that are entering new markets and/or making strategic acquisitions. Our largest investor-owned competitors, when pursuing acquisitions, based on a comparison of operating revenues and population served, are Aqua America Inc., United Water (owned by Suez Environnement), American States Water Co. and California Water Services Group. From time to time, we also face competition from infrastructure funds, multi-utility companies and others, such as Algonquin Power, Colix and others.

#### Supplies

Our water and wastewater operations require an uninterrupted supply of chemicals, energy and fuel, as well as maintenance material and other critical inputs. Many of these inputs are subject to short-term price volatility. Short-term price volatility is partially mitigated through existing procurement contracts, current supplier continuity plans, the regulatory rate setting process and rate mechanisms.

Because of our geographic diversity, we maintain relationships with many chemical, equipment and service suppliers in the marketplace, and we do not rely on any single entity for a significant amount of our supplies. We also employ a strategic sourcing process intended to ensure reliability in supply and long-term cost effectiveness. As a result of this process and our strong relationships with suppliers, we have historically been able to mitigate interruptions in the delivery of the products and services that are critical to our operations.

We typically have a combination of standby power generation or dual electric service feeds at key facilities, multiple water production facilities, emergency interconnections with adjacent water systems and finished water storage that keep our operations running in the event of a temporary loss of our primary energy supplies.

## Condemnation

The potential exists that all or portions of our regulated subsidiaries' utility assets could be acquired by municipalities or other local government entities through one or more of the following methods:

- eminent domain (also known as condemnation);
- the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity was granted; and
- the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its certificate.

For example, condemnation threats have been made over the last several years with respect to the following systems:

· **Mooreville, Indiana:** The Town of Mooreville (approximately 3,700 customer connections) filed a lawsuit to condemn Indiana American's Mooreville operations in August 2012. The Town originally offered \$6.5 million, while Indiana-American's appraisal valued the system at \$24.1 million. Following a June/July 2014 trial, the jury determined the Mooreville operations had a value of \$20.3 million. As a result of the determination, the Town decided not to pursue the purchase.

· **Monterey, California:** A citizens group in Monterey, California (approximately 40,000 customer connections) submitted enough signatures to have a measure added to the June 2014 election ballot asking voters to decide whether the local water management district should conduct a nine-month feasibility study concerning the potential purchase of the assets of the California American Water's Monterey service district. In the election, the voters rejected the proposed feasibility study; although it is possible that similar initiatives may be pursued in the future.

The acquisition consideration related to such a transaction initiated by a local government may be determined consistent with applicable eminent domain law, or may be negotiated or fixed by appraisers as prescribed by the law of the state or in the particular franchise or charter. We believe our Regulated Businesses would be entitled to fair market value for any assets required to be sold, and we are of the opinion that fair market value would be in excess of the book value for such assets. For additional information, including with respect to ongoing condemnation efforts, see "Item 1A—Risk Factors—The assets of our Regulated Businesses are subject to condemnation through eminent domain."

We actively monitor condemnation activities that may affect us as soon as we become aware of them. We do not believe that condemnation poses a material threat to our ability to operate our Regulated Businesses.

## Market-Based Operations

In addition to our Regulated Businesses, we also provide services to military bases, municipalities, industrial, commercial and residential customers that are not subject to economic regulation by state PUCs and do not require substantial infrastructure investment through our Market-Based Operations. For 2014, operating revenues for our Market-Based Operations was \$354.7 million, or 11.8% of total operating revenues. In 2014, no single customer accounted for more than 10% of our consolidated annual operating revenues.

Our Market-Based Operations include three lines of business:

- **Military Services Group**, which enters into 50-year contracts with the Department of Defense for the operation and maintenance of the water and wastewater systems on certain military bases;
- **Homeowner Services Group**, which provides services to domestic homeowners and smaller commercial establishments to protect against the cost of repairing broken or leaking water pipes, clogged or blocked sewer pipes inside and outside their accommodations and interior electric line repairs; and
- **Contract Operations Group**, which enters into contracts to operate and maintain water and wastewater facilities and other related services mainly for municipalities and the food and beverage industry.

In November 2014, we disposed of our Class B Biosolids line of business by selling our subsidiary Terratec Environmental Ltd (“Terratec”), which provided biosolids management, transport and disposal services to municipal and industrial customers in Ontario, Canada. In accordance with generally accepted accounting principles in the United States (“GAAP”), the results of Terratec are presented as discontinued operations and, as such, have been excluded from continuing operations and operating segment results for all periods presented. Unless otherwise noted, all information in this Form 10-K is presented on the basis of continuing operations. See Note 3 of the Consolidated Financial Statements for additional details on our discontinued operations.

## Military Services Group

Our Military Services Group has eleven 50-year contracts with the Department of Defense for the operation and maintenance of the water and wastewater systems on certain military bases. All of our contracts with the U.S. government may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. government or as a result of default or non-performance by the subsidiary performing the contract. In either event, pursuant to the standard terms of the U.S. government contract termination provisions, we would be entitled to recover allowable costs that we may have incurred under the contract, plus the contract profit margin on incurred costs. The contract price for nine of these contracts is subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions. Two contracts are subject to annual price adjustments under a mechanism similar to price redetermination, called “Economic Price Adjustment.” During the contract term, we may make limited short-term capital investments under our contracts with the United States military. .

## Homeowner Services Group

Our Homeowner Services Group, through our Service Line Protection Program, provides services to domestic homeowners and smaller commercial establishments to protect against the cost of interior and external water and sewer line repairs and interior electric line repairs. Our LineSaver™ program involves partnering with municipalities to offer our protection programs to homeowners serviced by the municipalities. As of December 31, 2014, our Homeowner Services Group has approximately 1.4 million customer contracts in 43 states and the District of Columbia.

## Contract Operations Group

Our Contract Operations Group enters into public/private partnerships, including O&M, Design, Build and Operate (“DBO”) and Design, Build, Finance, Operate and Maintain (“DBFOM”) contracts for the provision of services to water and wastewater facilities for municipalities, the food and beverage industry and other customers. We are party to approximately 70 contracts, varying in size and scope, across the United States and Canada, with contracts ranging in terms from one to 30 years. Historically, we have made little long-term capital investment under these contracts with municipalities and other customers; instead we perform our services for a fee. Occasionally we provide our customers with financing for capital projects as part of a long-term operations and maintenance partnership.

## Competition

We face competition in our Market-Based Operations from a number of service providers, including Veolia Environnement, American States Water, OMI and Southwest Water, particularly in the area of O&M contracting. Securing new O&M contracts is highly competitive, as these contracts are awarded based on a combination of customer relationships, service levels, competitive pricing, references and technical expertise. We also face competition in maintaining existing O&M contracts to which we are a party, as the municipal and industrial fixed term contracts frequently come up for renegotiation and are subject to an open bidding process.

Our Homeowner Services Group faces competition outside our existing footprint primarily from HomeServe USA and Utility Service Partners, Inc.

## Industry Matters

## Overview

The United States water and wastewater industry has two main sectors: (i) utility ownership, which involves supplying water and wastewater services to consumers; and (ii) general services, which involves providing water and wastewater related services to water and wastewater utilities and other customers on a contract basis.

The utility sector includes investor-owned as well as municipal systems that are owned and operated by local governments or governmental subdivisions. The EPA estimates that government-owned systems account for approximately 84% of all United States community water systems and approximately 98% of all United States community wastewater systems. Investor-owned water and wastewater systems, including a small number of private companies and developers, account for the remainder of the United States water and wastewater systems. Growth of service providers in the investor-owned regulated utility sector is achieved through organic growth within a franchise area, the provision of bulk water service to other community water systems and/or acquisitions of entire systems, including small and medium water and wastewater systems that are in close geographic proximity to already established regulated operations, as well as acquisitions in new service areas.

According to the EPA, the utility segment of the United States water and wastewater industry is highly fragmented, with approximately 52,000 community water systems and approximately 15,000 community wastewater facilities. Over half of the community water systems are very small, serving a population of 500 or less.

This large number of relatively small, fragmented water systems as well as fragmented wastewater facilities may result in inefficiencies in the marketplace, since such utilities may not have the operating expertise, financial and technological capability or economies of scale to provide services or raise capital as efficiently as larger utilities. Larger utilities that have greater access to capital are generally more capable of making mandated and other necessary infrastructure upgrades to both water and wastewater systems. In addition, water and wastewater utilities with large customer bases, spread across broad geographic regions, may more easily absorb the impact of significant variations in precipitation and temperatures, such as droughts, excessive rain and cool temperatures in specific areas. Larger utilities generally are able to spread support services over a larger customer base, thereby reducing the costs to serve each customer. Since many administrative and support activities can be efficiently centralized to gain economies of scale, companies that participate in industry consolidation have the potential to improve operating efficiencies, lower costs per unit and improve service at the same time.

The utility sector is characterized by high barriers to entry, given the capital intensive nature of the industry. The aging water and wastewater infrastructure in the United States is in constant need of modernization and replacement. Increased regulations to improve water quality and the management of water and wastewater residuals' discharges, which began with passage of the Clean Water Act in 1972 and the Safe Drinking Water Act in 1974, have been among the primary drivers of the need for modernization. In 2007, the EPA estimated that approximately \$390 billion of capital spending would be necessary over the then next 20 years to replace aging infrastructure and ensure quality wastewater systems across the United States. The EPA estimated that the nation's drinking water utilities need \$384 billion in infrastructure investments for thousands of miles of pipe as well as thousands of treatment plants storage tanks, and other key assets between 2011 and 2030 to ensure the public health, security and economic well-being of our cities, towns and communities. Additionally, in 2013 the American Society of Civil Engineers' ("ASCE"), Report Card for America's Infrastructure, gave the water and wastewater infrastructure a grade of "D" due to the fact that much of the infrastructure is nearing the end of its useful life. The report concluded that there will be an investment gap between now and 2020 of \$84 billion for drinking water and wastewater infrastructure.

The following chart sets forth estimated capital expenditure needs from 2011 through 2030 for United States water systems:

Note: Numbers may not total due to rounding

Source: U.S. Environmental Protection Agency's 2011 Drinking Water Infrastructure Needs Survey and Assessment



For 2015 to 2019, we estimate that Company-funded capital investment will amount to approximately \$6.0 billion. Of the \$6.0 billion, \$5.2 billion is anticipated to be utilized to upgrade our infrastructure and systems. In addition to these capital expenditures, we are also estimating additional capital investment over the five-year period of approximately \$0.8 billion for acquisitions and for strategic capital. Strategic investments could include opportunities in the unregulated shale arena, or investments related to the water/energy nexus, and/or concession agreements or acquisitions. Our total capital plan for 2015 is estimated to be approximately \$1.2 billion with approximately \$1.1 billion allocated to upgrading our infrastructure and systems, including infrastructure renewal programs and construction of facilities to meet environmental requirements and new customer growth. The remaining \$0.1 billion is expected to be spent for acquisitions and strategic investment purposes. The charts below set forth our estimated percentage of projected capital expenditures over the period of 2015 to 2019 for upgrading our infrastructure and systems by asset type and purpose of investment, respectively:

#### Water and Wastewater Rates

Water and wastewater rates in the United States are among the lowest for developed countries; and for most U.S. consumers, water and wastewater bills make up a relatively small percentage of household expenditures compared to other utility services. The following chart sets forth the relative cost of water and other public services, including trash and garbage collection and sewer maintenance, in the United States as a percentage of total household utility expenditures:

\*Source: Bureau of Labor Statistics-Consumer Expenditures Survey, 2012 (assumes four person household)

#### Environmental, Health and Safety and Water Quality Regulation

Our water and wastewater operations, including the services provided under both our Regulated Businesses and Market-Based Operations, are subject to extensive United States federal, state and local laws and regulations, and in the case of our Canadian operations, Canadian laws and regulations governing the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights and the manner in which we collect, treat, discharge and dispose of wastewater. We

are also subject to certain regulations regarding fire protection services in the areas we serve. These regulations include the Safe Drinking Water Act, the Clean Water Act and other federal, state, local and Canadian laws and regulations governing the provision of water and wastewater services, particularly with respect to the quality of water we distribute. We also are subject to various federal, state, local and Canadian laws and regulations governing the storage of hazardous materials, the management and disposal of hazardous and solid wastes, discharges to air and water, the cleanup of contaminated sites, dam safety and other matters relating to the protection of the environment and health and safety. State PUCs also set conditions and standards for the water and wastewater services we deliver.

Environmental, health and safety and water quality regulations are complex and change frequently. The overall trend has been that they have become more stringent over time. As newer or stricter standards are introduced, our capital and operating costs could increase. We incur substantial costs associated with compliance with environmental, health and safety and water quality regulation to which our Regulated Businesses are subject. In the past, we have generally been able to recover costs associated with compliance related to environmental, health and safety standards, but this recovery is affected by regulatory lag and the corresponding uncertainties surrounding rate recovery.

We maintain an appropriate environmental policy including responsible business practices, compliance with environmental laws and regulations, effective use of natural resources, and stewardship of biodiversity. We believe that our operations are materially in compliance with, and in many cases surpass, minimum standards required by applicable environmental laws and regulations. Water samples from across our water systems are analyzed on a regular basis for compliance with regulatory requirements. Across the Company, we conduct over one million water quality tests each year at our laboratory facilities and plant operations, including continuous on-line instrumentations such as monitoring turbidity levels, disinfectant residuals and adjustments to chemical treatment based on changes in incoming water. For 2014, we achieved a score of greater than 99% for drinking water compliance and according to the EPA statistics, American Water's performance has been far better than the industry average over the last several years. In fact, in 2014, American Water was 20 times better than the industry average for compliance with drinking water quality standards (Maximum Contaminant Levels) and 150 times better for compliance with drinking water monitoring and reporting requirements.

We participate in the Partnership for Safe Water, EPA's voluntary program to meet more stringent goals for reducing microbial contaminants. With 68 of our 81 surface water plants receiving the program's "Director" award, which recognizes utilities that have completed a comprehensive self-assessment report, created an action plan for continuous improvement and produces high quality drinking water, we account for approximately one-third of the plants receiving such awards nationwide. In addition, 63 American Water plants have received the "Five-Year Phase III" award, while 59 have been awarded the "Ten-Year Phase III" award. Additionally, three plants received the inaugural "Fifteen-Year Phase III" award, which recognizes plants that have met the Director award status for 15 years.

#### Safe Drinking Water Act

The Federal Safe Drinking Water Act and regulations promulgated thereunder establish national quality standards for drinking water. The EPA has issued rules governing the levels of numerous naturally occurring and man-made chemical and microbial contaminants and radionuclides allowable in drinking water and continues to propose new rules. These rules also prescribe testing requirements for detecting regulated contaminants, the treatment systems which may be used for removing those contaminants and other requirements. Federal and state water quality requirements have become increasingly stringent, including increased water testing requirements, to reflect public health concerns. To date, the EPA has set standards for approximately 90 contaminants and indicators for drinking water. Further, certain of our water systems are in the process of monitoring for 28 additional contaminants that are not currently regulated to help the EPA determine if any of them occur at high enough levels to warrant being regulated. There are thousands of other chemical compounds that are not regulated, many of which are lacking a testing methodology, occurrence data, health effects information and/or treatment technology.

To effect the removal or inactivation of microbial organisms, the EPA has promulgated various rules to improve the disinfection and filtration of drinking water and to reduce consumers' exposure to disinfectants and byproducts of the disinfection process. In January 2006, the EPA promulgated the Long-term 2 Enhanced Surface Water Treatment Rule and the Stage 2 Disinfectants and Disinfection Byproduct Rule. In October 2006, the EPA finalized the Ground Water Rule, applicable to water systems providing water from underground sources. The EPA also revised the monitoring and reporting requirements of the existing Lead and Copper Rule in 2007 and Congress enacted the Reduction of Lead in Drinking Water Act on January 4, 2011 regarding the use and introduction into commerce of lead pipes, plumbing fittings or fixtures, solder and flux. In 2012, the EPA finalized revisions to the Total Coliform Rule that were part of the mandate of a Federal Advisory Committee appointed to negotiate the changes. Most of the anticipated changes to the rule will not be effective until 2016. The EPA is actively considering regulations for a number of contaminants, including, strontium, hexavalent chromium, fluoride, nitrosamines, perchlorate, some pharmaceuticals and certain volatile organic compounds, but we do not anticipate that any of these regulations will require implementation in 2015. On July 1, 2014 the State of California implemented a standard making the primary drinking water standard 10 ug/L for hexavalent chromium. We are in compliance with this new standard.

Although it is difficult to project the ultimate costs of complying with the above or other pending or future requirements, we do not expect current requirements under the Safe Drinking Water Act to have a material impact on our operations or financial condition. In addition, capital expenditures and operating costs to comply with environmental mandates traditionally have been recognized by PUCs as appropriate for inclusion in establishing rates. As a result, we expect to fully recover the operating and capital costs resulting from these pending or future requirements.

#### Clean Water Act

The Federal Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams and groundwater. In addition to requirements applicable to our wastewater collection systems, our operations require discharge permits under the National Pollutant Discharge Elimination System (“NPDES”) permit program established under the Clean Water Act. Pursuant to the NPDES program, the EPA or implementing states set maximum discharge limits for wastewater effluents and overflows from wastewater collection systems. We maintain the necessary permits and approvals for the discharges from our water and wastewater facilities. From time to time, discharge violations occur at our facilities, some of which result in fines. We do not expect any such violations or fines to have a material impact on our results of operations or financial condition.

#### Other Environmental, Health and Safety and Water Quality Matters

Our operations also involve the use, storage and disposal of hazardous substances and wastes. For example, our water and wastewater treatment facilities store and use chlorine and other chemicals which generate wastes that require proper handling and disposal under applicable environmental requirements. We also could incur remedial costs in connection with any contamination relating to our operations or facilities or our off-site disposal of wastes. Although we are not aware of any material cleanup or decontamination obligations, the discovery of contamination or the imposition of such obligations in the future could result in additional costs. Our facilities and operations also are subject to requirements under the United States Occupational Safety and Health Act and are subject to inspections thereunder. For further information, see “Business—Research and Development.”

Certain of our subsidiaries are involved in pending legal proceedings relating to environmental matters. These proceedings are described further in the section entitled “Item 3—Legal Proceedings.”

#### Research and Development

We established a formal research and development program in 1981 with the goal of improving water quality and operational effectiveness in all areas of our business. Our research and development personnel are located in New Jersey. In addition, our quality control and testing laboratory in Belleville, Illinois supports research through testing and analysis.

Since the formation of the EPA in 1970, we have collaborated with the agency to achieve effective environmental, health and safety and water quality regulation. This relationship has developed to include sharing of our research and national water quality monitoring data in addition to our treatment and distribution system optimization research. Our engagement with the EPA has helped us to achieve a leadership position for our company within the water and wastewater industry and has provided us with early insight into emerging regulatory issues and initiatives, thereby allowing us to anticipate and to accommodate our future compliance requirements.

Approximately one-quarter of our research budget is funded by competitively awarded outside research grants. Such grants reduce the cost of research and allow collaboration with leading national and international researchers. In 2014, we spent \$3.6 million, including \$0.8 million funded by research grants. Spending, net of research grant funding,

amounted to \$2.9 million and \$2.8 million in 2013 and 2012, respectively.

We believe that continued research and development activities are critical for providing quality and reliable service at reasonable rates, and maintaining our leadership position in the industry, which provides us with a competitive advantage as we seek additional business with new and existing customers.

#### Support Services

Our American Water Works Service Company subsidiary provides shared services and corporate governance for our operating subsidiaries that gain economies of scale through central administration. These services are provided predominantly to our Regulated Businesses under the terms of contracts with these companies that have been approved by state PUCs, where necessary. These services, which are provided at cost, may include accounting, administration, business development, communications, corporate administrative, education and training, engineering, financial, health and safety, human resources, information systems, internal audit, investor relations, legal, operations, procurement, rates support, security, risk management, water quality and research and

development. These arrangements afford our operating companies professional and technical talent on an economical and timely basis. We also operate two national customer service centers, which are located in Alton, Illinois and Pensacola, Florida, that provide customer relations, operations and field service support.

Our security department provides oversight and governance of physical and information security throughout our operations and is responsible for designing, implementing, monitoring and supporting active and effective physical and information security controls. We have complied with EPA regulations concerning vulnerability assessments and have made filings to the EPA as required. Vulnerability assessments are conducted periodically to evaluate the effectiveness of existing security controls and serve as the basis for further capital investment in security for the facility. Information security controls are deployed or integrated to prevent unauthorized access to company information systems, assure the continuity of business processes dependent upon automation, ensure the integrity of our data and support regulatory and legislative compliance requirements. While we do not make public comments on the details of our security programs, we are in contact with federal, state and local law enforcement agencies to coordinate and improve the security of our water delivery systems and to safeguard our water supply.

#### Employee Matters

Approximately 50% of our workforce is represented by unions. We have 75 collective bargaining agreements in place with 17 different unions representing our unionized employees. We have two union contracts beyond expiration that affect approximately 50 employees, all of which are actively working under the old agreements. During 2015, 24 of our local union contracts will expire.

On October 13, 2014, we entered into a settlement agreement with the Utility Workers Union of America (“UWUA”) designed to resolve a dispute between our company and the labor unions representing employees in the Regulated Businesses (“the Unions”). Among other things, the settlement agreement provides for a new 2014-2018 National Benefits Agreement that will be in effect generally until July 31, 2018. In addition, we agreed to make a \$10.0 million lump-sum payment, to be distributed in accordance with procedures set forth in the settlement agreement among eligible employees represented by the Unions and affected by implementation of our last, best and final offer. The majority of the distributions are expected to be used to reimburse employees for medical claims, which were incurred during the relevant period and will be funded by the Group Insurance Plan for American Water Works Company, Inc. and Its Designated Subsidiaries and Affiliates – Active Employees VEBA (the “VEBA Trust”), to which we previously have made contributions.

The Unions approved the settlement agreement on October 30, 2014, and the National Labor Relations Board (the “NLRB”) approved the settlement agreement on October 31, 2014. The NLRB, UWUA and the Company filed a joint stipulation to dismiss the petition for review. The Seventh Circuit voluntarily dismissed all the parties' appeals on December 16, 2014. The NLRB will dismiss the unfair labor practice charge pending on the national benefits dispute when we have complied with the settlement agreement.

#### Available Information

We are subject to the reporting requirements of the Exchange Act, as amended. We file or furnish annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission (“SEC”). You may obtain a copy of any of these reports, free of charge, from the Investor Relations section of our website, <http://www.amwater.com>, shortly after we file or furnish the information to the SEC. Information contained on our website shall not be deemed incorporated into, or to be a part of, this report.

You may also obtain a copy of any of these reports directly from the SEC. You may read and copy any material we file or furnish with the SEC at their Public Reference Room, located at 100 F Street N.E., Washington, D.C. 20549.

The phone number for information about the operation of the Public Reference Room is 1-800-732-0330 (if you are calling from within the United States), or 202-551-8090. Because we electronically file our reports, you may also obtain this information from the SEC internet website at <http://www.sec.gov>. You can obtain additional contact information for the SEC on their website.

The American Water corporate governance guidelines and the charters for each of the standing committees of the board of directors, together with the American Water Code of Ethics and additional information regarding our corporate governance, are available on our website, <http://www.amwater.com>, and will be made available, without charge, in print to any shareholder who requests such documents from Investor Relations Department, American Water Works Company, Inc., 1025 Laurel Oak Road, Voorhees, NJ, 08043.

#### ITEM 1A. RISK FACTORS

We operate in a market and regulatory environment that involves significant risks, many of which are beyond our control. In addition to the other information included or incorporated by reference in this Form 10-K, the following factors should be considered

in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial position, results of operations or cash flows and liquidity.

#### Risks Related to Our Industry and Business

Our utility operations are subject to extensive economic regulation. Decisions by state PUCs and other regulatory agencies can significantly affect our business and results of operations.

Our Regulated Businesses provide water and wastewater services to our customers through subsidiaries that are economically regulated by state PUCs. Economic regulation affects the rates we charge our customers and has a significant impact on our business and results of operations. Generally, the state PUCs authorize us to charge rates that they determine are sufficient to recover our prudently incurred operating expenses, including, but not limited to, operating and maintenance costs, depreciation, financing costs and taxes and provide us the opportunity to earn an appropriate rate of return on our invested capital.

Our ability to successfully implement our business plan and strategy depends on the rates authorized by the various state PUCs. We periodically file rate increase applications with state PUCs. The ensuing administrative process may be lengthy and costly. Our rate increase requests may not be approved, and any approval may not be given in a timely manner. Moreover, a PUC may not approve a rate request to an extent that is sufficient to cover our expenses, including purchased water and costs of chemicals, fuel and other commodities used in our operations; enable us to recover our investment; and provide us with an opportunity to earn an appropriate rate of return on our investment, in which case our business, financial condition, results of operations, cash flows and liquidity may be adversely affected. Even if rates are sufficient, we face the risk that we will not achieve the rates of return on our invested capital to the extent permitted by state PUCs. This could occur if certain conditions exist, including but not limited to, if water usage is less than anticipated in establishing rates, as billings to customers are, to a considerable extent, based on usage in addition to a base rate, or if our investments or expenses prove to be higher than was estimated in establishing rates.

Our operations and the quality of water we supply are subject to extensive environmental, water quality and health and safety laws and regulations. Compliance with increasingly stringent laws and regulations could impact our operating costs; and violations of such laws and regulations could subject us to substantial liabilities and costs.

Our water and wastewater operations are subject to extensive federal, state and local laws and regulations and, in the case of our Canadian operations, Canadian laws and regulations that govern the protection of the environment, health and safety, the quality of the water we deliver to our customers, water allocation rights, and the manner in which we collect, treat, discharge and dispose of wastewater. These requirements include the Clean Water Act of 1972, which we refer to as the Clean Water Act, and the Safe Drinking Water Act of 1974, which we refer to as the Safe Drinking Water Act, and similar state and Canadian laws and regulations. We are also required to obtain various environmental permits from regulatory agencies for our operations.

In addition, state PUCs also set conditions and standards for the water and wastewater services we deliver. If we deliver water or wastewater services to our customers that do not comply with regulatory standards, or otherwise violate environmental laws, regulations or permits, or other health and safety and water quality regulations, we could incur substantial fines, penalties or other sanctions or costs, as well as damage to our reputation. In the most serious cases, regulators could reduce requested rate increases or force us to discontinue operations and sell our operating assets to another utility or to a municipality. Given the nature of our business which, in part, involves supplying water for human consumption, any potential non-compliance with, or violation of, environmental, water quality and health and safety laws or regulations would likely pose a more significant risk to us than to a company not similarly involved in the water and wastewater industry.



We incur substantial operating and capital costs on an ongoing basis to comply with environmental, water quality and health and safety laws and regulations. These laws and regulations, and their enforcement, generally have become more stringent over time, and new or stricter requirements could increase our costs. Although we may seek to recover ongoing compliance costs in our rates, there can be no guarantee that the various state PUCs or similar regulatory bodies that govern our Regulated Businesses would approve rate increases that would enable us to recover such costs or that such costs will not materially and adversely affect our financial condition, results of operations, cash flows and liquidity.

We may also incur liabilities if, under environmental laws and regulations, we are required to investigate and clean up environmental contamination at our properties, including potential spills of hazardous chemicals, such as chlorine, which we use to treat water, or at off-site locations where we have disposed of waste or caused an adverse environmental impact. The discovery of previously unknown conditions, or the imposition of cleanup obligations in the future, could result in significant costs and could adversely affect our financial condition, results of operations, cash flows and liquidity. Such remediation costs may not be covered by insurance and may make it difficult for us to secure insurance at acceptable rates in the future.

Limitations on availability of water supplies or restrictions on our use of water supplies as a result of government regulation or action may adversely affect our access to sources of water, our ability to supply water to customers or the demand for our water services.

Our ability to meet the existing and future demand of our customers depends on the availability of an adequate supply of water. As a general rule, sources of public water supply, including rivers, lakes, streams and groundwater aquifers, are held in the public trust and are not owned by private interests. As a result, we typically do not own the water that we use in our operations, and the availability of our water supply is established through allocation rights (determined by legislation or court decisions) and passing-flow requirements set by governmental entities. Passing-flow requirements set minimum volumes of water that must pass through specified water sources, such as rivers and streams, in order to maintain environmental habitats and meet water allocation rights of downstream users. Allocation rights are imposed to ensure sustainability of major water sources and passing-flow requirements are most often imposed on source waters from smaller rivers, lakes and streams. These requirements, which can change from time to time, may adversely impact our water supply. Supply issues, such as drought, overuse of sources of water, the protection of threatened species or habitats, or other factors may limit the availability of ground and surface water. For example, in our Monterey County, California operations, we are seeking to augment our sources of water supply, principally to comply with an October 20, 2009 cease and desist order of the California State Water Resources Control Board (the "2009 Order") that our subsidiary, California-American Water Company ("Cal Am"), significantly decrease its diversions from the Carmel River in accordance with a reduction schedule running through December 31, 2016 (the "2016 Deadline"). We are also required to augment our Monterey County sources of water supply to comply with the requirements of the Endangered Species Act. We cannot predict whether Cal Am will be able to secure alternative sources of water, or if Cal Am will be exposed to liabilities if it is unable to meet the 2016 Deadline under the 2009 Order. If Cal Am or any of our other subsidiaries are unable to secure an alternative source of water, or if other adverse consequences result from the events described above, our business, financial condition, results of operations and cash flows could be adversely affected. See Part I, Item 3, "Legal Proceedings" in this report that includes additional information regarding the Cal Am matter.

Service disruptions caused by severe weather conditions or natural disasters may disrupt our operations and economic conditions may reduce the demand for water services, either of which could adversely affect our financial condition and results of operations.

Service interruptions due to severe weather events are possible across all our service areas. These include winter storms and freezing conditions, high wind conditions, hurricanes, tornados, earthquakes, landslides coastal and intercoastal floods or high water conditions, including those in or near designated flood plains, and severe electrical storms. Weather events such as these may affect the condition or operability of our facilities, limiting or preventing us from delivering water or wastewater services to our customers, or requiring us to make substantial capital expenditures to repair any damage. In October 2012, our east coast subsidiaries were affected by Hurricane Sandy. The most significant impact to our business was caused by the widespread power outages caused by the storm's heavy winds, rain and snow. In addition, adverse economic conditions can cause our customers, particularly industrial customers, to curtail operations. A curtailment of operations by an industrial customer would typically result in reduced water usage. In more severe circumstances, the decline in usage could be permanent. Any decrease in demand resulting from difficult economic conditions could adversely affect our financial condition and results of operations.

Government restrictions on water use may also result in decreased use of water services, even if our water supplies are sufficient to serve our customers, which may adversely affect our financial condition and results of operations. Seasonal drought conditions that would impact our water services are possible across all of our service areas. If a regional drought were to occur, governmental restrictions may be imposed on all systems within a region independent of the supply adequacy of any individual system. For example, as a result of the reduced rain fall and overall dry conditions throughout the state of California, Cal Am has been closely monitoring its owned and purchased water

supplies. On January 17, 2014, the Governor of California issued a drought declaration asking Californians to reduce their water use by 20%. On April 25, 2014, the Governor issued an Executive Order addressing the drought and on July 15, 2014 the State Water Resources Control Board approved mandatory statewide water restrictions. The CPUC issued a resolution requiring Cal Am and all other regulated water providers to abide by the State Water Resources Control Board restrictions and requirements. While expenses incurred in implementing water conservation and rationing plans in Cal Am's districts are generally recoverable provided the CPUC determines they were reasonable, Cal Am cannot assure that such expenses will, in fact, be fully recovered. Moreover, reductions in water consumption, including those resulting from installation of equipment or changed consumer behavior, may persist even after drought restrictions are repealed and the drought has ended, which could adversely affect our business, financial condition, results of operations and cash flows.

Some scientific experts are predicting a worsening of weather volatility in the future. Changing severe weather patterns could require additional expenditures to reduce the risk associated with any increasing storm, flood and drought occurrences. The issue of climate change is receiving increased attention worldwide. Many climate change predictions, if true, present several potential challenges to water and wastewater utilities, such as: increased frequency and duration of droughts, increased precipitation and flooding, potential degradation of water quality, and changes in demand for services. Because of the uncertainty of weather volatility related to climate change, we cannot predict its potential impact on our business, financial condition, or results of operations.

Regulatory and environmental risks associated with the collection, treatment and disposal of wastewater may impose significant costs.

The wastewater collection, treatment and disposal operations of our subsidiaries are subject to substantial regulation and involve significant environmental risks. If collection, treatment or disposal systems fail, overflow, or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, causing damage to persons or property, injury to aquatic life and economic damages. This risk is most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damage could adversely and materially affect our business, results of operations and financial condition. Moreover, if we are deemed liable for any damage caused by overflow or disposal operations, our losses might not be covered by insurance, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

The current regulatory rate setting structure may result in a significant delay, or “regulatory lag,” from the time that we invest in infrastructure improvements, incur increased operating expenses or experience declining water usage, to the time at which we can address these events through the rate case application process; our inability to minimize regulatory lag could adversely affect our business.

There is typically a delay, or regulatory lag, between the time one of our regulated subsidiaries makes a capital investment or incurs an operating expense increase and the time when those costs are reflected in rates. In addition, billings permitted by state PUCs typically are, to a considerable extent, based on the volume of water usage in addition to a minimum base rate. Thus, we may experience a regulatory lag between the time our revenues are affected by declining usage and the time we are able to adjust the rate per gallon of usage to address declining usage. Our inability to reduce this regulatory lag could have an adverse effect on our financial condition, results of operations, cash flows and liquidity.

We endeavor to reduce regulatory lag by pursuing positive regulatory policies. For example, seven state PUCs permit rates to be adjusted outside of the rate case application process through surcharges that address certain capital investments, such as replacement of aging infrastructure. These surcharges are adjusted periodically based on factors such as project completion or future budgeted expenditures, and specific surcharges are eliminated once the related capital investment is incorporated in new PUC approved rates. Other examples of such programs include states that allow us to increase rates for certain cost increases that are beyond our control, such as purchased water costs or property or other taxes, or power, conservation, chemical or other expenditures. These surcharge mechanisms enable us to adjust rates in less time after costs have been incurred than would be the case under the rate case application process. While these programs have been a positive development and we continue to seek expansion of programs to mitigate regulatory lag, some state PUCs have not approved such programs. The PUC may not adopt any surcharge programs and existing programs may not continue in their current form, or at all. Furthermore, no state has adopted surcharge programs that include all elements of cost that may change between general rate proceedings. Although we intend to continue our efforts to expand state PUC approval of surcharges to address issues of regulatory lag, our efforts may not be successful, in which case our business, financial condition, results of operations, cash flows and liquidity may be adversely affected.

Our Regulated Businesses require significant capital expenditures and may suffer if we fail to secure appropriate funding to make investments, or if we experience delays in completing major capital expenditure projects.

The water and wastewater utility business is capital intensive. We invest significant amounts of capital to add, replace and maintain property, plant and equipment. In 2014, we invested \$1.0 billion in net Company-funded capital improvements. The level of capital expenditures necessary to maintain the integrity of our systems could increase in the future. We fund capital improvement projects using cash generated from operations, borrowings under our

revolving credit facility and commercial paper programs and issuances of long-term debt and equity securities. We may not be able to access the debt and equity capital markets, when necessary or desirable to fund capital improvements on favorable terms or at all.

In addition, we could be limited in our ability to both pursue growth and pay dividends in accordance with our dividend policy. In order to fund construction expenditures, acquisitions, principal and interest payments on our indebtedness, and dividends at the level currently anticipated under our dividend policy, we expect that we will need additional financing. We expect cash from operating activities, after the distribution of dividends, to fund a portion of our capital expenditures.

The ability to obtain financing at reasonable rates is contingent upon our credit ratings and general market conditions. If we do not obtain sufficient financing, we could be unable to maintain our existing property, plant and equipment, fund our capital investment strategies, meet our growth targets and expand our rate base to enable us to earn satisfactory future returns on our investments. Even with adequate financial resources to make required capital expenditures, we face the additional risk that we will not complete our major capital projects on time, as a result of construction delays, permitting delays, environmental restrictions, or other obstacles. Each of these outcomes could adversely affect our financial condition and results of operations.

Weather conditions could adversely affect demand for our water service and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to increased water usage for irrigation systems, swimming pools, cooling systems and other applications. Throughout the year, and particularly during typically warmer months, demand tends to vary with temperature, rainfall levels and rainfall frequency. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues.

Market conditions may unfavorably impact the value of benefit plan assets and liabilities, as well as assumptions related to the benefit plans, which may require us to provide significant additional funding.

The performance of the capital markets affects the values of the assets that are held in trust to satisfy significant future obligations under our pension and postretirement benefit plans. The value of these assets is subject to market fluctuations, which may cause investment returns to fall below our projected return rates. A decline in the market value of the pension and postretirement benefit plan assets can increase the funding requirements under our pension and postretirement benefit plans. Additionally, our pension and postretirement benefit plan liabilities are sensitive to changes in interest rates. If interest rates decrease, our liabilities would increase, potentially increasing benefit expense and funding requirements. Further, changes in demographics, such as increases in life expectancy assumptions may also increase our funding requirements. Future increases in pension and other postretirement costs as a result of reduced plan assets may not be fully recoverable in rates, in which case our results of operations and financial position could be negatively affected.

In addition, market factors can affect assumptions we use in determining funding requirements with respect to our pension and postretirement plans. For example, a relatively modest change in our assumptions regarding discount rates can materially affect our calculation of funding requirements. To the extent that market data compels us to reduce the discount rate used in our assumptions, our benefit obligations could be materially increased, which could adversely affect our financial position and results of operations.

Our indebtedness could affect our business adversely and limit our ability to plan for or respond to changes in our business, and we may be unable to generate sufficient cash flows to satisfy our liquidity needs.

As of December 31, 2014, our indebtedness (including preferred stock with mandatory redemption requirements) was \$6 billion, and our working capital (defined as current assets less current liabilities) was in a deficit position. Our indebtedness could have important consequences, including:

- limiting our ability to obtain additional financing to fund future working capital requirements or capital expenditures;
- exposing us to interest rate risk with respect to the portion of our indebtedness that bears interest at variable rates;
- limiting our ability to pay dividends on our common stock or make payments in connection with our other obligations;
- impairing our access to the capital markets for debt and equity;
- likely requiring that an increasing portion of our cash flows from operations be dedicated to the payment of the principal and interest on our debt, thereby reducing funds available for future operations, dividends on our common stock or capital expenditures;
- limiting our ability to take advantage of significant business opportunities, such as acquisition opportunities, and to react to changes in market or industry conditions; and
- placing us at a competitive disadvantage compared to those of our competitors that have less debt.

In order to meet our capital expenditure needs, we may be required to make additional borrowings under our revolving credit facility or issue new debt securities. Moreover, additional borrowings may be required to refinance outstanding indebtedness. Debt maturities and sinking fund payments in 2015, 2016 and 2017 are \$61.1 million, \$53.4 million and

\$572.8 million, respectively. We can provide no assurance that we will be able to access the debt capital markets on favorable terms, if at all. Moreover, if new debt is added to our current debt levels, the related risks we now face could intensify, limiting our ability to refinance existing debt on favorable terms.

We will depend primarily on operations to fund our expenses and to pay the principal and interest on our outstanding debt. Therefore, our ability to pay our expenses and satisfy our debt service obligations depends on our future performance, which will be affected by financial, business, economic, competitive, legislative, regulatory and other factors largely beyond our control. If we do not have sufficient cash flows to pay the principal and interest on our outstanding debt, we may be required to refinance all or part of our existing debt, sell assets, borrow additional funds or sell additional equity. In addition, if our business does not generate sufficient cash flows from operations, or if we are unable to incur indebtedness sufficient to enable us to fund our liquidity needs, we may be

unable to plan for or respond to changes in our business, which could cause our operating results and prospects to be affected adversely.

Contamination of our sources of water could result in service interruptions and exposure to substances not typically found in potable water supplies, and subject our subsidiaries to reduction in usage, governmental enforcement actions, private litigation and responsive obligations.

The water supplies that flow into our treatment plants and are then delivered into our distribution system are subject to contamination, including contamination from naturally-occurring compounds, chemicals in groundwater systems, pollution resulting from man-made sources, such as perchlorate and methyl tertiary butyl ether, and possible terrorist attacks. If one of our water supplies is contaminated, depending on the nature of the contamination, we may have to take responsive actions that could include (1) continuing limited use of the water supply under a “Do Not Use” protective order that enables continuation of basic sanitation and essential fire protection, or (2) interrupting the use of that water supply and locating an adequate supply of water from another water source, including, in some cases, through the purchase of water from a third-party supplier. If service is disrupted and we are unable to access a substitute water supply in a cost-effective manner, our financial condition, results of operations, cash flows, liquidity and reputation may be adversely affected. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. We might not be able to recover costs associated with treating or decontaminating water supplies through rates, or recovery of these costs may not occur in a timely manner. Moreover, we could be subject to claims for damages arising from government enforcement actions or toxic tort or other lawsuits arising out of interruption of service or human exposure to hazardous substances in our drinking water supplies.

In this regard, on January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal into the Elk River near the WVAWC treatment plant intake in Charleston, West Virginia.

WVAWC has and may continue to incur significant costs in responding to this incident and may not be able to recover such costs through rates or from insurers. Even if recovery is possible, it may not occur in a timely manner. Government investigations relating to the Freedom Industries spill have been initiated, state laws have been enacted, state and federal legislatures are considering changes to existing laws or rules associated with new laws, and 58 lawsuits have been filed to date against WVAWC and, in a few cases, against us or another of our affiliates. While the Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill, and the Company and WVAWC believe they and other Company affiliates have valid, meritorious defenses to the lawsuits, WVAWC will incur defense costs that may not be recoverable. Moreover, an adverse outcome in one or more of the lawsuits could have a material adverse effect on our financial condition, results of operations, cash flows, liquidity and reputation. WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations. See Part I, Item 3, “Legal Proceedings” in this report for additional information regarding the WVAWC matter.

In addition, we are a party to litigation in the normal course of business. Since we engage in providing drinking water to our customers, failures can result in substantial injury or damage to our customers, employees or others and we could be exposed to substantial claims and litigation. Such claims could relate to, among other things, personal injury, loss of life, business interruption, property damage, pollution, and environmental damage and may be brought by our customers or third parties.

Litigation and regulatory proceedings are subject to inherent uncertainties and unfavorable rulings can and do occur. Pending or future claims against us, to the extent we are not insured against a loss or our insurer fails to provide coverage, could have a material adverse impact on our business, financial condition, and results of operations.



We may sustain losses that exceed or are excluded from our insurance coverage or for which we are not insured

We maintain insurance coverage as part of our overall legal and risk management strategy to minimize our potential liabilities. Our insurance programs have varying coverage limits, exclusions and maximums, and insurance companies may seek to deny claims we might make. Generally, our insurance policies cover property damage, worker's compensation, employer's liability, general liability and automobile liability. Each policy includes deductibles or self-insured retentions and policy limits for covered claims. As a result, we may sustain losses that exceed or that are excluded from our insurance coverage or for which we are not insured.

Although in the past we have been generally able to cover our insurance needs, there can be no assurances that we can secure all necessary or appropriate insurance in the future, or that such insurance can be economically secured. For example, catastrophic events can result in decreased coverage limits, more limited coverage, increased premium costs or deductibles.

Work stoppages and other labor relations matters could adversely affect our results of operations.

Approximately 50% of our workforce is represented by unions. We have 75 collective bargaining agreements in place with 17 different unions representing our unionized employees. We might not be able to renegotiate labor contracts on terms that are fair to us. Any negotiations or dispute resolution processes undertaken in connection with our labor contracts could be delayed or affected by labor actions or work stoppages. Labor actions, work stoppages or the threat of work stoppages, and our failure to obtain favorable labor contract terms during renegotiations may adversely affect our financial condition, results of operations, cash flows and liquidity.

While we have developed contingency plans to be implemented as necessary if a work stoppage or strike does occur, a strike or work stoppage may have a material adverse impact on our results of operations, financial position or cash flows.

The failure of, or the requirement to repair, upgrade or dismantle, any of our dams may adversely affect our financial condition and results of operations.

We own 89 dams. A failure of any of those dams could result in personal injury and downstream property damage for which we may be liable. The failure of a dam would also adversely affect our ability to supply water in sufficient quantities to our customers and could adversely affect our financial condition and results of operations. Any losses or liabilities incurred due to a failure of one of our dams might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future.

We also are required from time to time to decommission, repair or upgrade the dams that we own. The cost of such repairs or upgrades can be and has been material. The federal and state agencies that regulate our operations may adopt rules and regulations requiring us to dismantle our dams, which also could entail material costs. Although in most cases, the PUC has permitted recovery of expenses and capital investment related to dam rehabilitation, we might not be able to recover costs of repairs, upgrades or dismantling through rates in the future. The inability to recover these costs or delayed recovery of the costs as a result of regulatory lag can affect our financial condition, results of operations, cash flows and liquidity.

Any failure of our network of water and wastewater pipes and water reservoirs could result in losses and damages that may affect our financial condition and reputation.

Our operating subsidiaries distribute water and collect wastewater through an extensive network of pipes and storage systems located across the United States. A failure of major pipes or reservoirs could result in injuries and property damage for which we may be liable. The failure of major pipes and reservoirs may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quantities to our customers and to meet the water and wastewater delivery requirements prescribed by government regulators, including state PUCs with jurisdiction over our operations, and adversely affect our financial condition, results of operations, cash flows, liquidity and reputation. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance at acceptable rates in the future. Moreover, to the extent such business interruptions or other losses are not covered by insurance, they may not be recovered through rate adjustments.

Our inability to access the capital or financial markets could affect our ability to meet our liquidity needs at reasonable cost and our ability to meet long-term commitments, which could adversely affect our financial condition and results of operations.

In addition to cash from operations, we rely on our revolving credit facility, commercial paper programs, and the capital markets to satisfy our liquidity needs. In this regard, our principal external source of liquidity is our revolving credit facility. We regularly use our commercial paper program as a principal source of short-term borrowing due to the generally more attractive rates we obtain in the commercial paper market. However, disruptions in the capital markets could limit our ability to access capital. While our credit facility lending banks have met all of their obligations, disruptions in the credit markets, changes in our credit ratings, or deterioration of the banking industry's financial condition could discourage or prevent lenders from meeting their existing lending commitments, extending the terms of such commitments, or agreeing to new commitments. In order to meet our short-term liquidity needs, particularly if borrowings through the commercial paper market are unavailable, we maintain a \$1.25 billion revolving credit facility. Under the terms of our revolving credit facility, commitments of \$70 million mature in October 2017 and \$1.18 billion mature in October 2018. Our inability to maintain, renew or replace these commitments could materially increase our cost of capital and adversely affect our financial condition, results of operations and liquidity.

American Water Capital Corp. ("AWCC"), our financing subsidiary, had no outstanding borrowings under the revolving credit facility and \$36.5 million of outstanding letters of credit under the credit facility as of February 19, 2015. AWCC had \$502.9 million of outstanding commercial paper as of February 19, 2015. Our lenders may not meet their existing commitments and we may not be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

Longer term disruptions in the capital and credit markets as a result of uncertainty, reduced financing alternatives, or failures of significant financial institutions could adversely affect our access to the liquidity needed for our business. Any significant disruption in the capital and credit markets, or financial institution failures could require us to take measures to conserve cash until the market stabilizes or until alternative financing can be arranged. Such measures could include deferring capital expenditures, reducing or suspending dividend payments, and reducing other discretionary expenditures.

Any impediments to our access to the capital markets or failure of our lenders to meet their commitments that result from financial market disruptions could expose us to increased interest expense, require us to institute cash conservation measures or otherwise adversely affect our business, financial condition, results of operations, cash flows, and liquidity.

Changes in laws and regulations over which we have no control and changes in certain agreements can significantly affect our business and results of operations.

New legislation, regulations, government policies or court decisions can materially affect our operations. The individuals who serve as regulators are elected or are political appointees. Therefore, elections which result in a change of political administration or new appointments may also result in changes in the individuals who serve as regulators and the policies of the regulatory agencies that they serve. New laws or regulations, new interpretations of existing laws or regulations, changes in agency policy, including those made in response to shifts in public opinion, or conditions imposed during the regulatory hearing process could have the following consequences, among others:

- making it more difficult for us to raise our rates and, as a consequence, to recover our costs or earn our expected rates of return;
- changing the determination of the costs, or the amount of costs, that would be considered recoverable in rate cases;
- restricting our ability to terminate our services to customers who owe us money for services previously provided or limiting our bill collection efforts;
- requiring us to provide water services at reduced rates to certain customers;
- restricting our ability to buy or sell assets or issue securities;
- changing regulations that affect the benefits we expected to receive when we began offering services in a particular area;
- changing or placing additional limitations on change in control requirements relating to any concentration of ownership of our common stock;
- making it easier for governmental entities to convert our assets to public ownership via eminent domain;
- placing limitations, prohibitions or other requirements with respect to the sharing of information and participation in transactions by or between a regulated subsidiary and us or our other affiliates, including our service company and any of our other subsidiaries;
- restricting or prohibiting our extraction of water from rivers, streams, reservoirs or aquifers; and
- revoking or altering the terms of the certificates of public convenience and necessity (or similar authorizations) issued to us by state PUCs.

Any of the foregoing consequences could have an adverse effect on our business, financial condition, results of operations, cash flows and liquidity.

An important part of our growth strategy is the acquisition of water and wastewater systems. Any further acquisitions we undertake may involve risks. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to grow our business.

An important element of our growth strategy is the acquisition of water and wastewater systems in order to broaden our current, and move into new, service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to expand our business.

The negotiation of potential acquisitions as well as the integration of acquired businesses with our existing operations could require us to incur significant costs and cause diversion of our management's time and resources. Future acquisitions by us could result in:

- issuances of our equity securities;
- incurrence of debt, contingent liabilities, environmental liabilities and assumption of liabilities of an acquired business, including liabilities that were unknown at the time of acquisition;
- seeking recovery of acquisition premiums
- unanticipated capital expenditures;
- failure to maintain effective internal control over financial reporting;
- recording goodwill and other intangible assets at values that ultimately may be subject to impairment charges if we do not realize the initially recorded value;
- fluctuations in quarterly results;
- other acquisition-related expenses;
- failure to realize anticipated benefits, such as cost savings and revenue enhancements; and
- difficulties assimilating personnel, services and systems.

Some or all of these items could have a material adverse effect on our business and our ability to finance our business, pay dividends and to comply with regulatory requirements. The businesses we acquire in the future may not achieve anticipated sales and profitability, and any difficulties we encounter in the integration process could interfere with our operations, reduce our operating margins and adversely affect our internal control over financial reporting.

We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. If consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to expand through acquisitions. In addition, our competitors may impede our growth by purchasing water utilities adjacent to or near our existing service areas, thereby impairing our ability to geographically expand the affected service areas. Competing governmental entities, utilities, environmental or social activist groups, and strategic and financial buyers have challenged, and may in the future challenge, our efforts to acquire new companies and/or service areas. Our growth could be hindered if we are not able to compete effectively for new companies and/or service areas with other companies or strategic and financial buyers that have lower costs of operations. Any of these risks may adversely affect our business, financial condition, and results of operations.

We have recorded a significant amount of goodwill, and we may never realize the full value of our intangible assets, causing us to record impairments that may negatively affect our results of operations.

Our total assets include \$1.2 billion of goodwill at December 31, 2014. The goodwill is primarily associated with the acquisition of American Water by an affiliate of our previous owner in 2003 and the acquisition of E'Town Corporation by a predecessor to our previous owner in 2001. Goodwill represents the excess of the purchase price the purchaser paid over the fair value of the net tangible and other intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. As required by the applicable accounting rules, we have taken significant non-cash charges to operating results for goodwill impairments in the past.

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to our performance. These market events could include a decline over a period of time of our stock price, a decline over a period of time in valuation multiples of comparable water utilities, market price performance of our common stock that composes unfavorably to our peer companies, or decreases in control premiums. A decline in the results forecasted in our business plan due to events such as changes in rate case results, capital investment budgets or our interest rates, could also result in an impairment charge. Recognition of impairments of a significant portion of

goodwill would negatively affect our reported results of operations and total capitalization, the effect of which could be material and could make it more difficult to maintain our credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of our regulators.

The assets of our Regulated Businesses are subject to condemnation through eminent domain.

Municipalities and other government subdivisions have historically been involved in the provision of water and wastewater services in the United States, and organized efforts may arise from time to time in one or more of the service areas in which our

Regulated Businesses operate to convert our assets to public ownership and operation through exercise of the governmental power of eminent domain. Should a municipality or other government subdivision or a citizen group seek to acquire our assets through eminent domain, either directly or indirectly as a result of a citizen petition we may resist the acquisition. For example, condemnation threats have been made in the Chicago, Illinois area where the municipalities of Homer Glen (approximately 6,000 customer connections) and Bolingbrook (approximately 23,000 customer connections) have commissioned studies to determine the cost and feasibility of condemning Illinois-American's retail distribution systems serving those communities and have formally requested certain financial and other information from Illinois-American. In addition, five municipalities (approximately 29,200 customer connections) formed a water agency to pursue eminent domain with respect to our water pipeline that serves those five communities and made an offer of \$37.6 million for the pipeline. The water agency filed an eminent domain lawsuit in January 2013 that is still pending.

Contesting an exercise of condemnation through eminent domain, or responding to a citizen petition, may result in costly legal proceedings and may divert the attention of the affected Regulated Businesses' management from the operation of its business. Moreover, our efforts to resist the condemnation may not be successful.

If a municipality or other government subdivision succeeds in acquiring the assets of one or more of our Regulated Businesses through eminent domain, there is a risk that we will not receive adequate compensation for the business, that we will not be able to keep the compensation, or that we will not be able to divest the business without incurring significant one-time charges.

For information regarding specific condemnation threats made against us that were recently concluded see Item 1, "Business—Condemnation."

We rely on technology to facilitate the management of our business and customer and supplier relationships, and a disruption of these systems could adversely affect our business.

Our technology systems, particularly our information technology ("IT") systems, are an integral part of our business, and a serious disruption of our IT systems could significantly limit our ability to manage and operate our business efficiently, which, in turn, could cause our business and competitive position to suffer and adversely affect our results of operations. For example, we depend on our IT systems to bill customers, process orders, provide customer service, manage construction projects, manage our financial records, track assets, remotely monitor certain of our plants and facilities and manage human resources, inventory and accounts receivable collections. Our IT systems also enable us to purchase products from our suppliers and bill customers on a timely basis, maintain cost-effective operations and provide service to our customers. While we recently completed the business transformation implementation for our Enterprise Resource Planning ("ERP"), Enterprise Asset Management ("EAM") and Customer Information ("CIS") systems, a number of our mission and business critical IT systems are older, such as our SCADA (supervisory control and data acquisition) system. Although we do not believe that our IT systems are at a materially greater risk of cybersecurity incidents than other similar organizations, our IT systems remain vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of customer data due to security breaches, cyber attacks, misappropriation and similar events;
- computer viruses;
- intentional security breaches, hacking, denial of services actions, misappropriation of data and similar events; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

These events may result in physical and electronic loss of customer or financial data, security breaches, misappropriation and other adverse consequences. In addition, the lack of redundancy for certain of our IT systems,



including billing systems, could exacerbate the impact of any of these events on us.

In addition, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our business, and we might lack sufficient resources to make the necessary upgrades or replacements of outdated existing technology to enable us to continue to operate at our current level of efficiency.

We may be subject to physical and/or cyber attacks.

As operators of critical infrastructure, we may face a heightened risk of physical and/or cyber attacks. Our water and wastewater systems may be vulnerable to disability or failures as a result of physical or cyber acts of war or terrorism, vandalism or other causes. Our corporate and information technology systems may be vulnerable to unauthorized access due to hacking, viruses, acts of war or terrorism, and other causes.

If, despite our security measures, a significant physical attack or cyber breach occurred, we could have our operations disrupted, property damaged, and customer information stolen; experience substantial loss of revenues, response costs, and other financial loss; and be subject to increased regulation, litigation, and damage to our reputation, any of which could have a negative impact on our business and results of operations.

We may not be able to fully utilize our U.S. and state net operating loss carryforwards.

As of December 31, 2014, we had U.S. federal and state net operating loss (“NOL”) carryforwards of approximately \$1.0 billion and \$542 million, respectively. Our federal NOL carryforwards begin to expire in 2028, and our state NOL carryforwards will expire between 2015 and 2033. Our ability to utilize our NOL carryforwards is primarily dependent upon our ability to generate sufficient taxable income. Moreover, because our previous owner’s divestiture of its stock was considered an “ownership change” under Section 382 of the Internal Revenue Code, the amount of NOL carryforwards that may be utilized in any year is limited. Our management believes the federal NOL carryforwards are more likely than not to be recovered and therefore currently require no valuation allowance. At December 31, 2014, \$63.1 million of the state NOL carryforwards have been offset by a valuation allowance because we do not believe these NOLs will more likely than not be realized in the future, and we have, in the past, been unable to utilize certain of our NOLs. The establishment or increase of a valuation allowance in the future would reduce our deferred income tax assets and our net income.

Our actual results may differ from those estimated by management in making its assessment as to our ability to use the NOL carryforwards. Moreover, changes in income tax laws, the economy and the general business environment could affect the future utilization of the NOL carryforwards. If we are unable to fully utilize our NOL carryforwards to offset taxable income generated in the future, our financial position, results of operations and cash flows could be materially adversely affected.

We (excluding our regulated subsidiaries) provide performance guarantees with respect to certain obligations of our Market-Based Operations, including financial guarantees or deposits, to our public-sector and public clients, which may seek to enforce the guarantees if our Market-Based Operations do not satisfy these obligations.

Under the terms of some of our agreements for the provision of services to water and wastewater facilities with municipalities, other governmental entities and other customers, American Water (excluding our regulated subsidiaries) provides guarantees of specified performance obligations of our Market-Based Operations, including financial guarantees or deposits. In the event our Market-Based Operations fail to perform these obligations, the entity holding the guarantees may seek to enforce the performance commitments against us or proceed against the deposit. In that event, our financial condition, results of operations, cash flows, and liquidity could be adversely affected.

At December 31, 2014, we had remaining performance commitments as measured by remaining contract revenue totaling approximately \$865.8 million and this amount is likely to increase if our Market-Based Operations expand. The presence of these commitments may adversely affect our financial condition and make it more difficult for us to secure financing on attractive terms.

Our Market-Based Operations’ long-term contracts with the Department of Defense may be terminated for the convenience of the U.S. Government and are subject to periodic contract price redetermination.

All of our contracts with the Department of Defense for the operation and maintenance of water and wastewater systems may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. Government or as a result of default or non-performance by the subsidiary performing the contract. In addition, the contract price for each of these military contracts is typically subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to

periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions. Any early contract termination or unfavorable price redetermination could adversely affect our results of operations.

We operate a number of water and wastewater systems under O&M contracts and face the risk that the owners of those systems may fail to provide capital to properly maintain those systems, which may negatively affect us as the operators of the systems.

We operate a number of water and wastewater systems under O&M contracts. Pursuant to these contracts, we operate the system according to the standards set forth in the applicable contract, and it is generally the responsibility of the owner of the system to undertake capital improvements. In some cases, we may not be able to convince the owner to make needed improvements in order to maintain compliance with applicable regulations. Although violations and fines incurred by water and wastewater systems may be the responsibility of the owner of the system under these contracts, those non-compliance events may reflect poorly on us as the operator of the system and damage our reputation, and in some cases, may result in liability to the same extent as if we were the owner.

Our Market-Based Operations are party to long-term contracts to operate and maintain water and wastewater systems under which we may incur costs in excess of payments received.

Some of our Market-Based Operations enter into long-term contracts under which they agree to operate and maintain a municipality's, federal government's or other party's water or wastewater treatment and delivery facilities, which includes specified major maintenance for some of those facilities, in exchange for an annual fee. Our Market-Based Operations are generally subject to the risk that costs associated with operating and maintaining the facilities, including production costs such as purchased water, electricity, fuel and chemicals used in water treatment, may exceed the fees received from the municipality or other contracting party. Losses under these contracts or guarantees may adversely affect our financial condition, results of operations, cash flows and liquidity.

Our inability to efficiently optimize and stabilize our recently implemented business transformation project, could result in higher than expected costs or otherwise adversely impact our internal controls environment, operations and profitability.

Over the past several years, we have implemented a "business transformation" project, which is intended to improve our business processes and upgrade our legacy core information technology systems. This multi-year, enterprise-wide initiative supports our broader strategic initiatives. The project is intended to optimize workflow throughout our field operations, improve our back-office operations and enhance our customer service capabilities. The scale and costs associated with the business transformation project were significant. Any technical or other difficulties in optimizing and stabilizing this initiative may increase the costs of the project and have an adverse effect on our operations and reporting processes, including our internal control over financial reporting. In August 2012, our new business systems associated with Phase I of our business transformation project became operational. Phase I consisted of the roll-out of the ERP, which encompassed applications that handle human resources, finance, and supply chain/procurement management activities. In the second quarter of 2013, we implemented Phase II of our business transformation project in a number of our regulated subsidiaries. In the fourth quarter of 2013, Phase II of our business transformation project was implemented in our remaining regulated subsidiaries. Phase II consisted of the roll-out of a new Enterprise Asset Management system, which manages an asset's lifecycle, and a Customer Information system, which contains all billing and collections data pertaining to American Water's customers for our Regulated segment. Although efforts have been made to minimize any adverse impact on our controls, we cannot assure that all such impacts have been mitigated.

As we make adjustments to our operations, we may incur incremental expenses prior to realizing the benefits of a more efficient workforce and operating structure. Further, we may not realize anticipated cost improvements and greater efficiencies from the project.

We operate numerous information technology systems that are in various stages of integration, sometimes leading to inefficiencies. Therefore, delays in stabilization and optimization of the business transformation project will also delay cost savings and efficiencies expected to result from the project. We may also experience difficulties consolidating our current systems, moving to a common set of operational processes and implementing a successful change management process. These difficulties may impact our ability to meet customer needs efficiently. Any such delays or difficulties may have a material and adverse impact on our business, client relationships and financial results.

Our business has inherently dangerous workplaces. If we fail to maintain safe work sites, we can be exposed to financial losses as well as penalties and other liabilities.

Our safety record is critical to our reputation. We maintain health and safety standards to protect our employees, customers, vendors and the public. Although we intend to adhere to such health and safety standards it is unlikely that we will be able to avoid accidents at all times.

Our business sites, including construction and maintenance sites, often put our employees and others in close proximity with large pieces of equipment, moving vehicles, pressurized water, chemicals and other regulated materials. On many sites we are responsible for safety and, accordingly, must implement safety procedures. If we fail to implement such procedures or if the procedures we implement are ineffective or are not followed by our employees or others, our employees and others may be injured or die. Unsafe work sites also have the potential to increase employee turnover and raise our operating costs. Any of the foregoing could result in financial losses, which could have a material adverse impact on our business, financial condition, and results of operations.

In addition, our operations can involve the handling and storage of hazardous chemicals, which, if improperly handled, stored or disposed of, could subject us to penalties or other liabilities. We are also subject to regulations dealing with occupational health and safety. Although we maintain functional employee groups whose primary purpose is to ensure we implement effective health, safety, and environmental work procedures throughout our organization, including construction sites and maintenance sites, the failure to comply with such regulations could subject us to liability.

Our continued success is dependent upon our ability to hire, retain, and utilize qualified personnel.

The success of our business is dependent upon our ability to hire, retain, and utilize qualified personnel, including engineers, craft personnel, and corporate management professionals who have the required experience and expertise. From time to time, it may be difficult to attract and retain qualified individuals with the expertise and in the timeframe demanded for our business needs. In certain geographic areas, for example, we may not be able to satisfy the demand for our services because of our inability to successfully hire and retain qualified personnel.

In addition, as some of our key personnel approach retirement age, we need to have appropriate succession plans in place and to successfully implement such plans. If we cannot attract and retain qualified personnel or effectively implement appropriate succession plans, it could have a material adverse impact on our business, financial condition, and results of operations.

#### ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2.PROPERTIES

Our properties consist of transmission, distribution and collection pipes, water and wastewater treatment plants, pumping wells, tanks, meters, supply lines, dams, reservoirs, buildings, vehicles, land, easements, software rights and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage and distribution of water, and the collection and treatment of wastewater. Substantially all of our properties are owned by our subsidiaries, and a substantial portion of our property is subject to liens of our mortgage bonds. We lease our corporate offices, equipment and furniture, located in Voorhees, New Jersey from certain of our wholly-owned subsidiaries. These properties are utilized by our directors, officers and staff in the conduct of the business.

Our regulated subsidiaries own, in the states in which they operate, transmission, distribution and collection pipes, pump stations, treatment plants, storage tanks, reservoirs and related facilities. A substantial acreage of land is owned by our Regulated Businesses, the greater part of which is located in watershed areas, with the balance being principally sites of pumping and treatment plants, storage reservoirs, tanks and standpipes. Additionally, properties and facilities including such items as well fields, tanks, offices and operation centers are also leased by our regulated subsidiaries. Our Market-Based Operations' properties consist mainly of office furniture and IT equipment and are primarily located in New Jersey. Approximately 51% of our properties are located in New Jersey and Pennsylvania.

We maintain property insurance against loss or damage to our properties by fire or other perils, subject to certain exceptions. For insured losses, we are self-insured to the extent that any losses are within the policy deductible or exceed the amount of insurance maintained. Any such losses could have a material adverse effect on our consolidated results of operations, financial position or cash flows.

We believe that our properties are generally maintained in good operating condition and in accordance with current standards of good water and wastewater works industry practice, and units of property are replaced as and when necessary.

#### ITEM 3.LEGAL PROCEEDINGS

Alternative Water Supply in Lieu of Carmel River Diversions

In 1995, the California Water Resources Control Board (the "Water Resources Control Board") issued an administrative order (the "1995 Order") to Cal Am requiring Cal Am to implement an alternative water supply in lieu of diversions from the Carmel River. In response to claims that Cal Am had not diligently pursued establishing an alternative water supply as required by the 1995 Order, the Water Resources Control Board adopted the 2009 Order, finding that Cal Am has not sufficiently implemented actions to terminate its unpermitted diversions from the Carmel River as required by the 1995 Order. The 2009 Order requires, among other things, that Cal Am significantly decrease its yearly diversions from the Carmel River according to a set reduction schedule running from the date the 2009 Order was adopted until December 31, 2016, at which point all unpermitted diversions must end. Failure to effect the decrease in diversions mandated by the 2009 Order could result in substantial penalties. We can provide no assurances that Cal Am will be able to comply with the diversion reduction requirements and other remaining requirements under the 2009 Order or that any such compliance will not result in material additional costs or obligations to us. As noted below, Cal Am does not expect to have sufficient alternative sources of water available by the December 31, 2016 deadline, and is engaged in discussions with the Water Resources Control Board to extend the deadline.

On December 2, 2010, the California Public Utilities Commission (“CPUC”) approved the Regional Desalination Project (the “RDP”), involving the construction of a desalination facility in the City of Marina, north of Monterey. The RDP was to be implemented through a Water Purchase Agreement and ancillary agreements (collectively, the “Agreements”) among the Marina Coast Water District (“MCWD”), the Monterey County Water Resources Agency (“MCWRA”) and Cal Am. The desalination facility was to be constructed and owned by MCWD, and MCWRA was to construct the wells that were to supply water to the desalination facility. The RDP was intended, among other things, to fulfill Cal Am’s obligations under the 1995 Order and the 2009 Order, in addition to other obligations.

The RDP was subject to delay due to, among other things, funding delays and investigations and inquiries initiated by public authorities relating to an alleged conflict of interest concerning a former member of the MCWRA Board of Directors (the “Former Director”). On July 7, 2011, MCWRA advised MCWD and Cal Am that the Agreements were void as a result of the conduct of the Former Director. Subsequently, on August 12, 2011, Cal Am advised MCWD and MCWRA that they had defaulted in performance of certain financing obligations under the Water Purchase Agreement. By letter delivered to MCWD and MCWRA on September 28, 2011, Cal Am terminated the Agreements as a result of MCWRA’s anticipatory repudiation of the Agreements by stating they were void. On January 17, 2012, following unsuccessful mediation efforts among the parties, Cal Am publicly announced that it had withdrawn support of the RDP. Disputes among the parties with respect to the RDP continued thereafter. On July 12, 2012, the CPUC closed the proceedings relating to the RDP and stated that it would examine the recoverability of costs related to the RDP in other proceedings. Cal Am plans to file a new application seeking recovery of legal costs relating to the RDP after any pending legal disputes are resolved.

In December 2012, Cal Am, MCWRA and the County of Monterey entered into a settlement agreement under which Cal Am will forgive approximately \$1.9 million previously loaned by Cal Am to MCWRA in connection with the RDP, and Cal Am will make additional payments of up to approximately \$1.5 million to MCWRA. The settlement agreement, the debt forgiveness and the additional payments are conditioned on CPUC approval, including approval of Cal Am rate recovery of the debt forgiveness and the additional payments. Cal Am and MCWD also entered into a tolling agreement, which, as extended by subsequent agreements, toll applicable statutes of limitations and the deadline for commencement of litigation regarding Cal Am’s claims until June 30, 2015. The MCWRA settlement agreement and the tolling and standstill agreement do not affect litigation initiated by Cal Am seeking a determination regarding the validity of the Agreements, which is described below. On May 24, 2013, Cal Am filed an application with the CPUC for approval of the settlement agreement and rate recovery on Cal Am’s debt forgiveness and additional payments to MCWRA under the settlement agreement. The application is pending.

On October 4, 2012, Cal Am filed a Complaint for Declaratory Relief in the Monterey County Superior Court (subsequently transferred to the San Francisco Superior Court) against MCWRA and MCWD, seeking a determination by the Court as to whether the Agreements are void as a result of the Former Director’s alleged conflict of interest, or remained valid. A trial on the matter was held on December 2-5, 2014. The Court has established deadlines for post-trial closing and reply briefs, but has not yet scheduled a date for oral argument following the February 10, 2015 deadline for submission of reply briefs.

On April 23, 2012, Cal Am filed an application with the CPUC for approval of the Monterey Peninsula Water Supply Project (the “Water Supply Project”). The Water Supply Project involves construction of a desalination plant and related facilities, all to be owned by Cal Am. In addition, the Water Supply Project may encompass Cal Am’s purchase of water from the proposed Monterey Peninsula Groundwater Replenishment Project (the “GWR Project”), a joint project between the Monterey Regional Water Pollution Control Agency and the Monterey Peninsula Water Management District (“MPWMD”). The Water Supply Project also would involve aquifer storage and recovery through an already established aquifer storage and recovery program between Cal Am and the MPWMD.



On July 31, 2013, Cal Am entered into a settlement agreement with 15 other parties that have intervened in the CPUC proceedings with respect to the Water Supply Project, including several Monterey County government entities, the Office of Ratepayer Advocates of the CPUC and several interest groups (the "WSP Settlement"). Under the settlement agreement, the parties have agreed on several matters relating to the Water Supply Project. In a separate settlement agreement among most of the same parties, the participating parties agreed on sizing of the desalination plant at 9.6 million gallons per day, if the GWR Project does not supply water to Cal Am, and, if the GWR Project supplies water to Cal Am, either 6.4 million gallons per day or 6.9 million gallons per day depending on discrete capacities of GWR Project water. This settlement agreement is subject to the approval of the CPUC and will not take effect unless the CPUC determines that it is reasonable within the law and the public interest, and until the CPUC certifies an environmental impact report for the proposed Water Supply Project, which currently is expected to be issued in the first quarter of 2016.

A preliminary step to building the desalination plant is the test slant well project, involving the construction and operation of a test slant well, as well as monitoring well clusters and other related infrastructure, to confirm the suitability of the property on which permanent intake wells will be located to draw water from under Monterey Bay. As proposed by Cal Am, the site of the test slant well is on a property owned by one or more affiliates of Cemex, Inc. (collectively, "Cemex"), and in the WSP Settlement, the parties agreed that the preferred location to build a test slant well project is the Cemex property. Cal Am and Cemex have entered into an agreement

under which Cal Am acquired a temporary investigative easement to construct and operate the test slant well together with monitoring wells and other related infrastructure on Cemex property and a four year option to purchase a permanent easement that will enable Cal Am's access to and operation of slant wells and related pipelines and utilities for the Water Supply Project on portions of the Cemex property to be determined if and when the final configuration of new water supply wells are approved by the California Coastal Commission ("Coastal Commission").

On November 12, 2014, the Coastal Commission approved the coastal development permit for the test slant well on the Cemex property. In addition, the Coastal Commission approved a second coastal development permit, enabling Cal Am to construct the portion of the test slant well that will be under state lands (beneath the ocean floor), provided that Cal Am acquires a lease from the California State Lands Commission (the "State Lands Commission"), which owns the state lands. The State Lands Commission executed the required lease on January 22, 2015, and the Coastal Commission issued the second coastal development permit on January 28, 2015.

On December 11, 2014, MCWD filed a Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief in the Monterey County Superior Court against the Coastal Commission and Cal Am. With the consent of all parties involved, the matter was transferred to the San Jose County Superior Court. MCWD seeks, among other things, a peremptory writ of mandate commanding the Coastal Commission to vacate its decision to approve the coastal development permit relating to the Cemex property, and a permanent injunction restraining Cal Am and the Coastal Commission from taking any action to implement the test slant well project, pending full compliance with the California Environmental Quality Act ("CEQA") and the California Coastal Act (the "Coastal Act").

On December 23, 2014, Ag Land Trust, an agricultural land conservancy, filed its First Amended Petition for Writ of Mandamus with the San Jose County Superior Court against the Coastal Commission and Cal Am (the "Ag Land Trust Petition"). The Ag Land Trust Petition seeks writs of mandate ordering the Coastal Commission to set aside its approval of the test slant well project and follow California regulations and statutes in complying with CEQA and the Coastal Act, and enjoining Cal Am from engaging in any activity pursuant to the test slant well project until the project and the Coastal Commission comply with California regulations and statutes.

On January 15, 2015, MCWD filed a Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief in the Santa Cruz County against the California State Lands Commission and Cal Am (the "January 2015 Petition"). The January 2015 Petition seeks injunctive relief restraining the State Lands Commission and Cal Am from taking any action to further implement the test slant well project pending full compliance with CEQA and other applicable laws; a peremptory writ of mandate commanding the State Lands Commission to vacate and set aside the decision to approve the lease allowing Cal Am to construct and operate a test slant well and associated monitoring wells on sovereign lands; and a peremptory writ of mandate directing the State Lands Commission and Cal Am to comply with the requirements of CEQA and other applicable laws.

The Coastal Commission and the State Lands Commission have not yet responded to the action or actions in which they respectively are a respondent. Cal Am has not yet responded to the actions, although it intends to contest these actions vigorously.

In addition to the foregoing matters, Cal Am's ability to move forward on the Water Supply Project is subject to extensive administrative review by the CPUC, review by other government agencies of necessary permit applications, and intervention from other parties, including some that are not participants in the settlement agreements relating to the Water Supply Project. In addition, there have been delays in the initial timetable for preparation of the environmental impact report due to, among other things, uncertainties regarding timing of government approval of various required permits. As a result, Cal Am estimates that the earliest date by which the Water Supply Project could be completed is early 2019. We cannot assure that Cal Am's application for the Water Supply Project will be approved or that the Water Supply Project will be completed on a timely basis, if ever.

Because the projected completion date of the Water Supply Project is beyond the December 31, 2016 deadline for Cal Am to terminate unpermitted diversions from the Carmel River, Cal Am has commenced discussions with the Water Resources Control Board to extend the December 2016 deadline. While Cal Am believes the discussions have been constructive, we cannot assure that the deadline will be extended.

#### West Virginia Elk River Freedom Industries' Chemical Spill

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal, 4-methylcyclohexane methanol, or MCHM, and PPH/DiPPH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia. After having been alerted to the leak of MCHM by the West Virginia Department of Environmental Protection ("DEP"), WVAWC took immediate steps to gather more information about MCHM, augment its treatment process as a precaution, and begin consultations with federal, state and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the MCHM, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a "Do Not Use" order for all of

its approximately 93,000 customer accounts in parts of nine West Virginia counties served by the Charleston treatment plant. The order addressed the use of water for drinking, cooking, washing and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive sampling and testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention (“CDC”) and EPA indicated would be protective of public health. Beginning on January 13, 2014, based on the results of the continued testing, the Do Not Use order was lifted in stages to help ensure the water system was not overwhelmed by excessive demand, which could have caused additional water quality and service issues. By January 18, 2014, none of WVAWC’s customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals were at non-detectable levels remained in place. In addition, based on saved samples taken on or before January 18, 2014, PPH/DiPPH was no longer detected in the water supply as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM were below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the “non-detect” level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC continued to work with laboratories to test down to below 2 ppb of MCHM and announced on March 3, 2014, that it had cleared the system to below this level.

To date, 58 lawsuits have been filed against WVAWC with respect to this matter in the United States District Court for the Southern District of West Virginia or West Virginia Circuit Courts in Kanawha, Boone and Putnam counties. Fifty-two of the state court cases naming WVAWC, and one case naming both WVAWC and American Water Works Service Company, Inc. (“AWWSC,” and together with WVAWC and the Company, the “American Water Defendants”) were removed to the United States District Court for the Southern District of West Virginia, but are subject to motions to remand the cases back to the state courts and have been consolidated for the sole purpose of resolving venue issues. Four of the cases pending before the federal district court were consolidated for purposes of discovery, and an amended consolidated complaint for those cases was filed on December 9, 2014 by several plaintiffs who allegedly suffered economic losses, loss of use of property and tap water or other specified adverse consequences as a result of the Freedom Industries spill, on behalf of a purported class of all persons and businesses supplied with, using, or exposed to water contaminated with Crude MCHM and provided by WVAWC in Logan, Clay, Lincoln, Roane, Jackson, Boone, Putnam, and Kanawha Counties and the Culloden area of Cabell County, West Virginia as of January 9, 2014. The consolidated complaint names several individuals and corporate entities as defendants, including the American Water Defendants. The plaintiffs seek unspecified damages for alleged business or economic losses; unspecified damages or a mechanism for recovery to address a variety of alleged costs, loss of use of property, personal injury and other consequences allegedly suffered by purported class members; punitive damages and certain additional relief, including the establishment of a medical monitoring program to protect the purported class members from an alleged increased risk of contracting serious latent disease. The American Water Defendants have each filed an answer to the consolidated complaint. The Company individually, and AWWSC and WVAWC together, filed motions to dismiss the consolidated complaint. Briefing on these motions was completed on January 28, 2015.

Additionally, investigations with respect to the matter have been initiated by the Chemical Safety Board, the U.S. Attorney’s Office for the Southern District of West Virginia, the West Virginia Attorney General, and the Public Service Commission of West Virginia (the “PSC”). As a result of the U.S. Attorney’s Office investigation, on December 17, 2014, four former Freedom Industries officers (three of whom also were former owners of Freedom Industries), were indicted for, among other things, negligent discharge of a pollutant in violation of the federal Clean Water Act. These executives are also facing additional federal charges resulting from a 13-count superseding indictment issued by a grand jury on January 21, 2015. In addition, information charges were filed against Freedom Industries for, among other things, negligent discharge of a pollutant in violation of the Clean Water Act, and against the former plant manager of Freedom Industries’ Elk River facility and one of the individuals responsible for environmental compliance at Freedom Industries for violating the Clean Water Act.

On May 21, 2014, the PSC issued an Order initiating a General Investigation into certain matters relating to WVAWC's response to the Freedom industries spill. Three parties have intervened in the proceeding, including the Consumer Advocate Division of the PSC and two attorney-sponsored groups, including one sponsored by some of the plaintiffs' counsel involved in the civil litigation described above. WVAWC has filed testimony regarding its response to the spill and is subject to discovery from PSC staff and the intervenors as part of the General Investigation. Several disputes have arisen between the WVAWC and the intervenors regarding, among other things, the scope of the discovery and the maintenance of confidentiality with regard to certain WVAWC emergency planning documents. In addition, the intervenors and PSC staff filed expert testimony in support of their assertions that WVAWC did not act reasonably with respect to the Freedom Industries spill, and WVAWC has asserted that some of the testimony is outside the scope of the PSC proceeding. The PSC has deferred setting a revised procedural schedule and has not set a final hearing date on the matter.

The Company, WVAWC and the other Company-affiliated entities named in any of the lawsuits believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries spill and the Company, WVAWC and other Company-affiliated entities named in any of the lawsuits have valid, meritorious defenses to the lawsuits. The Company, WVAWC and the other Company affiliated entities intend to vigorously contest the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on the Company's financial condition, results of operations, cash flows, liquidity

and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

#### General

Periodically, the Company is involved in other proceedings or litigation arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will materially affect the Company's financial position or results of operations. However, litigation and other proceedings are subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. It is possible that some litigation and other proceedings could be decided unfavorably to us, and that any such unfavorable decisions could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

#### ITEM 4. Mine Safety Disclosures

Not applicable

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since April 23, 2008, our common stock has traded on the NYSE under the symbol "AWK." As of February 19, 2015, there were 179,787,780 shares of common stock outstanding and approximately 2,150 record holders of common stock. Holders of the Company's common stock are entitled to receive dividends when they are declared by the Board of Directors. When dividends on common stock are declared, they are usually paid in March, June, September and December. Future dividends are not guaranteed by the Company and will be dependent on future earnings, financial requirements, contractual provisions of debt agreements and other relevant factors.

The following table sets forth the per-share range of the high and low closing sales prices of our common stock as reported on the NYSE and the cash dividends paid and declared per share for the years ended December 31, 2014 and 2013.

	2014					2013				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter*	Second Quarter	Third Quarter	Fourth Quarter	Year
Dividends paid per common										
share	\$0.28	\$0.31	\$0.31	\$0.31	\$1.21	\$0.00	\$0.28	\$0.28	\$0.28	\$0.84
Dividend declared per common										
share	\$0.00	\$0.31	\$0.62	\$0.31	\$1.24	\$0.00	\$0.28	\$0.56	\$0.28	\$1.12
Price range of common stock										
—High	\$45.56	\$49.45	\$50.61	\$55.86	\$55.86	\$41.44	\$42.74	\$43.50	\$43.49	\$43.50
—Low	\$41.16	\$45.16	\$46.41	\$47.92	\$41.16	\$37.33	\$39.40	\$39.90	\$39.13	\$37.33

\*The dividend that would have normally been paid in the first quarter of 2013 was paid on December 28, 2012 to allow shareholders to take advantage of the existing 2012 tax rates.

In February 2015, our Board of Directors authorized a common stock repurchase program for the specific purpose of providing a vehicle to minimize share dilution that occurs through its dividend reinvestment, employee stock purchase and executive compensation programs. The program will allow the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time to manage dilution.

For information on securities authorized for issuance under our equity compensation see "Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

## ITEM 6. SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share data)				
Statement of operations data: (1)					
Operating revenues	\$3,011,328	\$2,878,936	\$2,853,926	\$2,641,592	\$2,535,131
Operating income	\$1,002,576	\$948,316	\$924,104	\$801,639	\$728,951
Income from continuing operations	\$429,841	\$370,844	\$373,602	\$303,472	\$255,451
Income from continuing operations					
per basic common share	\$2.40	\$2.08	\$2.12	\$1.73	\$1.46
Income from continuing operations					
per diluted common share	\$2.39	\$2.07	\$2.10	\$1.72	\$1.46

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	As of December 31, 2014      2013		2012	2011	2010
	(In thousands)				
Balance sheet data:					
Cash and cash equivalents	\$23,080	\$26,964	\$24,433	\$14,207	\$13,112
Utility plant and property, net of					
depreciation	\$12,899,704	\$12,244,359	\$11,584,944	\$10,872,042	\$10,241,342
Total assets	\$16,130,956	\$15,088,142	\$14,718,976	\$14,776,391	\$14,086,246
Short-term and long-term debt	\$5,942,186	\$5,855,712	\$5,574,763	\$5,882,956	\$5,658,473
Redeemable preferred stock	\$17,151	\$18,827	\$20,511	\$22,036	\$22,794
Total debt and redeemable preferred stock	\$5,959,336	\$5,874,539	\$5,595,274	\$5,904,992	\$5,681,267
Common stockholders' equity	\$4,915,591	\$4,727,804	\$4,443,268	\$4,235,837	\$4,127,725
Preferred stock without mandatory					
redemption requirements	\$—	\$—	\$1,720	\$4,547	\$4,547
Total stockholders' equity	\$4,915,591	\$4,727,804	\$4,444,988	\$4,240,384	\$4,132,272

For the Years  
Ended  
December 31,  
2014 2013