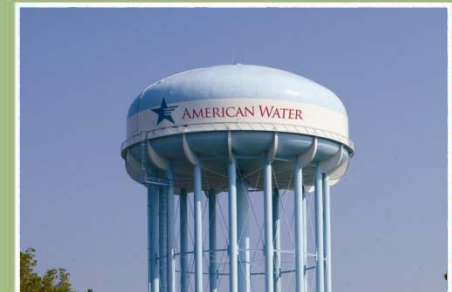




# AMERICAN WATER

## 2011 Third Quarter Earnings Conference Call

November 3, 2011



# Edward D. Vallejo

## Vice President Investor Relations

November 2011

# Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this presentation are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on our current expectations and assumptions regarding future events and may relate to, among other things, our future financial performance, our growth and portfolio optimization strategies, our projected capital expenditures and related funding requirements, our ability to repay debt, our ability 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. Actual results could differ materially because of factors such as the completion of the independent audit of our financial statements; decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates; changes in laws, governmental regulations and policies, including environmental, health and water quality and public utility regulations and policies; weather conditions, patterns or events, including drought or abnormally high rainfall; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; significant changes to our business processes and corresponding technology; our ability to appropriately maintain current infrastructure; 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; 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 or dispose of assets or lines of business that are not complementary to our operations and the growth of our business; 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; 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; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; the incurrence of impairment charges 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 presentation. Except as required by law, 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.

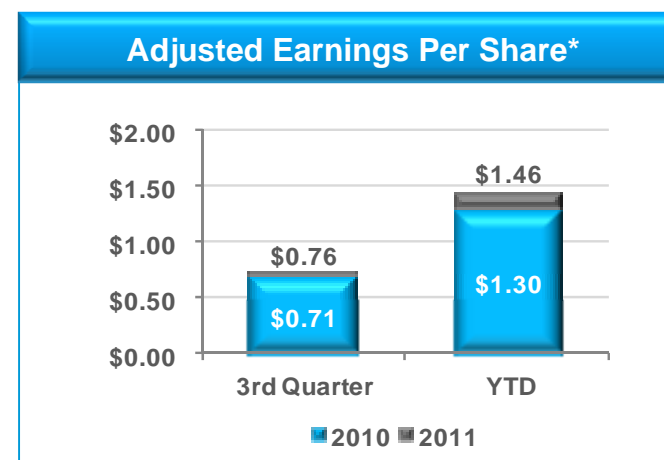
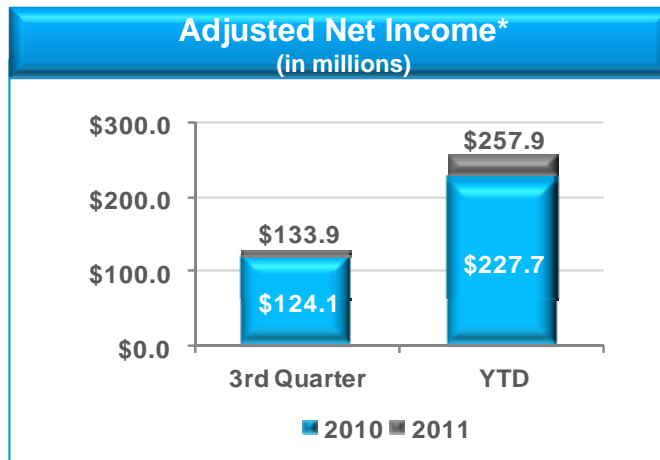
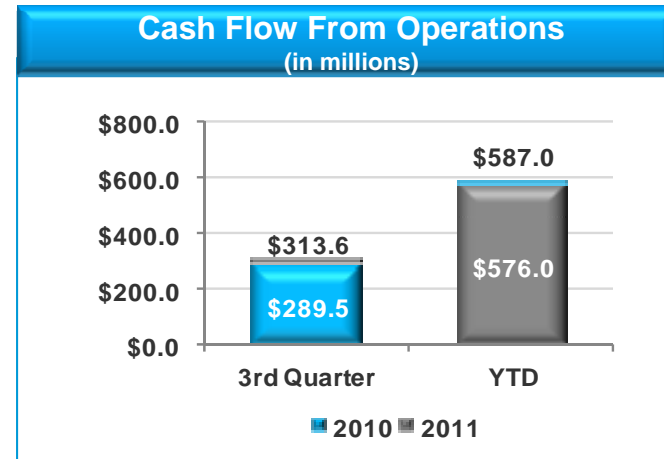
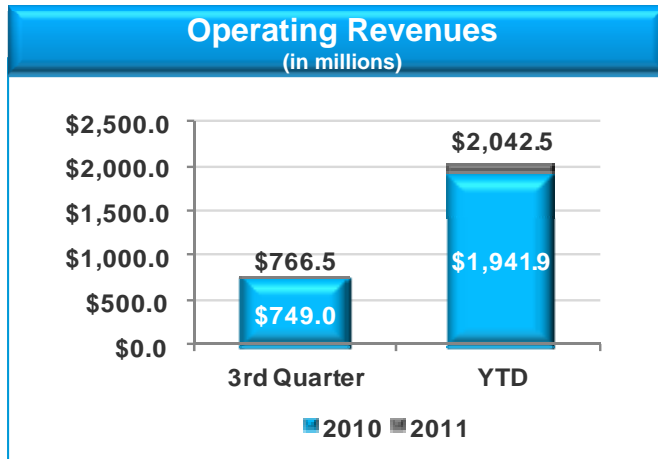
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# **Jeff Sterba**

## **President and Chief Executive Officer**

November 2011

# American Water: Solid Results



\*Adjusted net Income and diluted EPS exclude the cessation of depreciation worth \$3.5 million after tax, or \$0.02 per share and \$11.4 million after tax or \$0.06 per share for the three and nine months ended September 30, 2011, respectively, on assets under agreement for sale. No adjustments are needed for 2010 data.

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# Highlights of the Quarter

- **Shareholder Value**

- Last 12 months ROE is 7.02 percent vs. 6.39 percent in comparable 2010 period
- Dividend of \$0.23 per share declared

- **Growth**

- Agreement to acquire seven water systems in NY
- Completed acquisition of Roark Water & Sewer in MO

- **Innovation**

- Partnership with ENBALA Power Networks
- Awarded patent for "Optimized Nutrient Removal from Wastewater"
- Installed floating solar panels pilot in N.J.

- **Committed to our customers and the communities we serve**

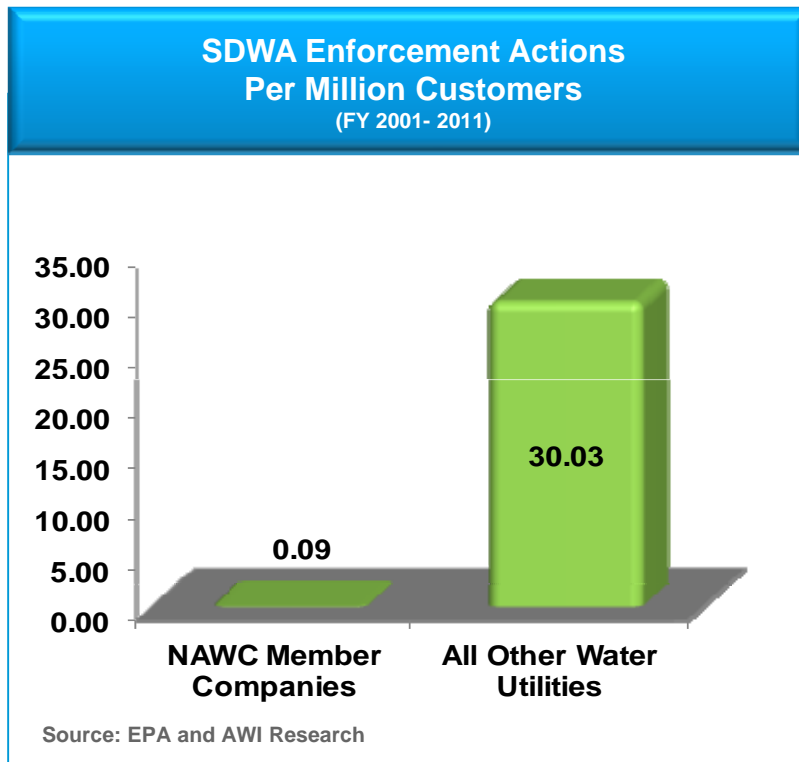
- Invested \$621.9 million in first nine months of 2011 vs. \$522.1 million in comparable 2010 period
- Hurricane Irene and Tropical Storm Lee
- 2011 EPA WaterSense Excellence Award

- **Committed to our employees**

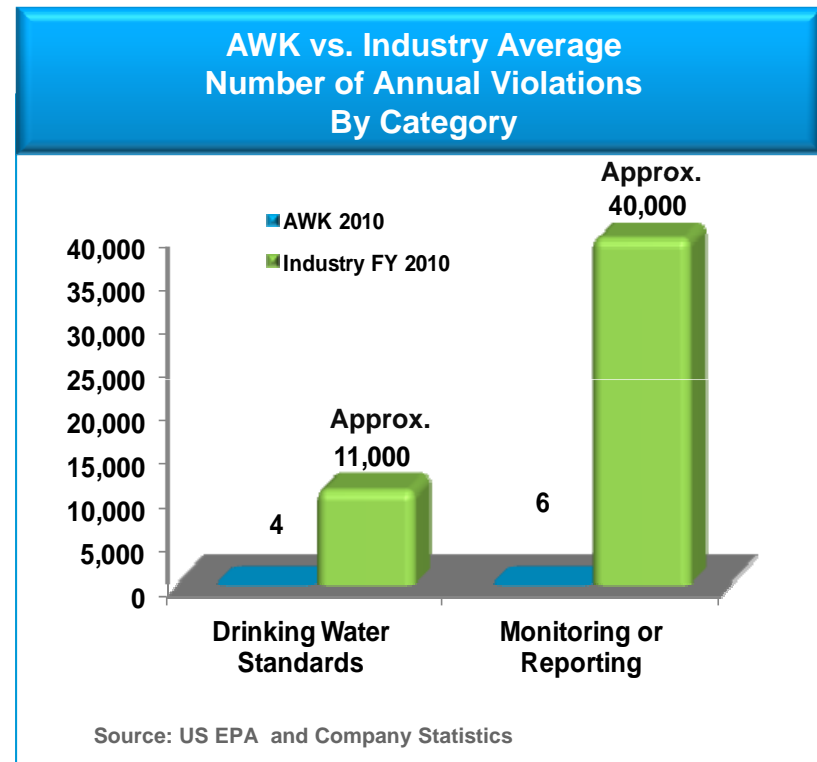
- Healthy Solutions participation

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# Investor-Owned Water Utilities Have Exceptional Safe Drinking Water Act (SDWA) Compliance Records



**Privately Owned Water Utilities have much cleaner SDWA Compliance Records than Public Utilities**



**American Water's violations rate is considerably lower than its 5% market share**

- National Association of Water Companies (NAWC) – represents about 150 water firms across the U.S.
- American Water Intelligence (AWI)

**Ellen C. Wolf**  
**Senior Vice President**  
**and Chief Financial Officer**

November 2011



# 2011 Third Quarter Financial Results

<i>(In thousands, except per share data)</i>	For the Three Months Ended September 30,	
	2011	2010
Revenue	\$766,450	\$748,953
Operating Income	\$281,317	\$266,528
Operating Income Margin %	36.7%	35.6%
Regulated O&M efficiency ratio <sup>(1)</sup>	39.6%	40.6%
Net Income	\$137,422	\$124,114
Adjusted Net Income <sup>(2)</sup>	\$133,929	\$124,114
Common dividends paid	\$117,463	\$111,825
Average common shares outstanding during the period: Diluted	\$176,593	\$175,062
Diluted Earnings per common share	\$0.78	\$0.71
Diluted Adjusted Earnings per common share <sup>(2)</sup>	\$0.76	\$0.71
Cash flows from operating activities	\$313,648	\$289,518

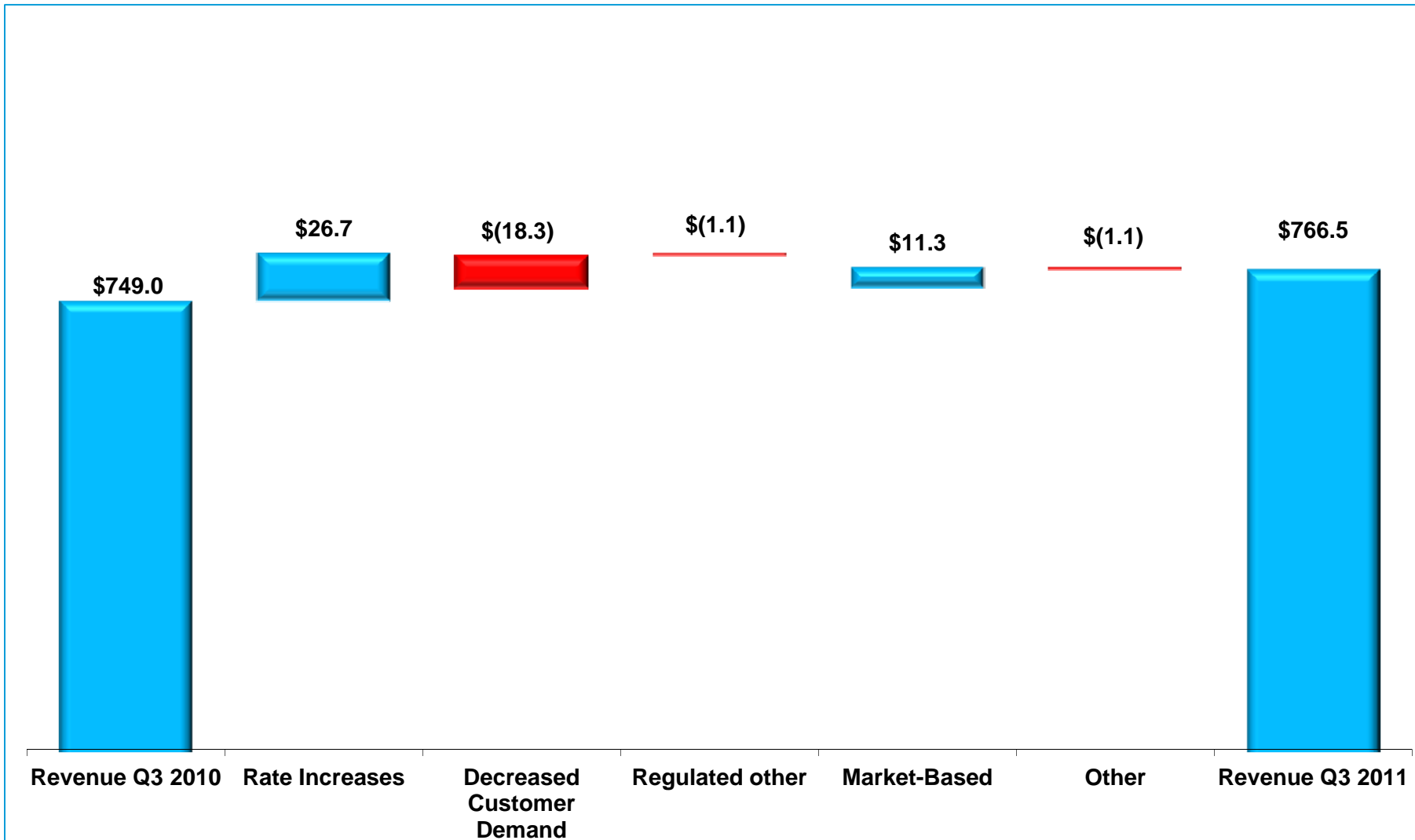
(1) Excludes purchased water. Non-GAAP measure - for calculation see table in Appendix.

(2) Adjusted for cessation of depreciation worth \$3.5 million after tax, or \$0.02 per share on assets under agreement for sale – Non-GAAP measure (see reconciliation table in Appendix).

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# Revenue Breakdown – Third Quarter 2011

(\$ in millions)



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# Rate Cases and Infrastructure Charges Awarded (As of November 3, 2011)

(\$ in millions) <b>Final Order</b>	<b>Effective Date for new rates</b>	<b>ROE Granted</b>	<b>Annualized Increase to Revenue</b>
<i>General Rate Cases:</i>			
Illinois	4/23/2010	10.38%	\$ 41.4
New Mexico (Edgewood)	5/10/2010	10.00%	0.5
Indiana	5/3/2010	10.00%	31.5
Virginia (Eastern)	5/8/2010	10.50%	0.6
Ohio	5/19/2010	9.34%	2.6
Missouri	7/1/2010	10.00%	28.0
California (Sac, LA, Lark)	7/1/2010	10.20%	14.6
Michigan	7/1/2010	10.50%	0.2
Kentucky	10/1/2010	9.70%	18.8
New Jersey	1/1/2011	10.30%	39.9
Pennsylvania Wastewater	1/1/2011	10.60%	8.4
Arizona (Anthem, etc.)	1/1/2011	9.50%	14.7
Tennessee	4/5/2011	10.00%	5.6
West Virginia	4/19/2011	9.75%	5.1
Virginia (a)	4/6/2011*	10.20%	4.8
<i>Subtotal - General Rate Cases</i>			\$216.7
<i>Infrastructure Charges:</i>			
Pennsylvania			24.9
Other			14.8
<i>Subtotal - Infrastructure Charges</i>			\$39.7
<i>Total</i>			\$256.4

(a) Includes non-jurisdictional components of approximately \$0.5 million. The effective dates were dependent upon the specific customers and were either August 2010 or January 1, 2011.

# Rate Cases Awaiting Final Order as of November 3, 2011

	<b>Docket / Case Number</b>	<b>Date Filed</b>	<b>Annualized Revenue Increase Filed</b>	<b>ROE Requested</b>	<b>Rate Base (Filed)</b>	<b>Filing Status</b>
California	A 10-07-007	07/01/10	\$37.3	10.20%	409.6	3
Arizona	W-01303A-10-0448	11/03/10	20.4	11.50%	149.2	3
Hawaii	2010-0313	02/22/11	1.8	11.85%	25.2	3
New York	11-W-0200	04/29/11	9.6	11.50%	126.9	3
Indiana	44022	05/02/11	20.4	11.50%	733.4	3
New Mexico	11-00196-UT	05/18/11	2.6	11.75%	33.6	2
Missouri	WR-2011-0037	06/30/11	42.9	11.50%	849.1	2
Ohio	11-4161-WS-AIR	07/01/11	8.3	11.50%	92.3	2
New Jersey	WR11070460	07/29/11	95.5	11.50%	2,059.7	2
Illinois	Not assigned yet	10/27/11	37.8	11.40%	716.1	
<b>Total</b>			<b>\$276.6</b>		<b>\$4,479.0</b>	

## Settlement Reached - Awaiting Final Order as of November 3, 2011

	<b>Docket / Case Number</b>	<b>Date Filed</b>	<b>Settlement Amount Awaiting Final Order</b>	<b>Filing Status</b>
Pennsylvania	R-2011-2232243	04/29/11	\$36.0	4
Iowa*	RPU-2011-0001	04/29/11	2.5	5
Hawaii**	2007-0180	11/1/2007	1.3	4
<b>Total</b>			<b>\$39.8</b>	

\* Final Order not yet issued. Interim rates in effect. Partial settlement has been reached.

\*\*Rate case filed in 2007 for Hawaii for which interim rates have been in effect since October 2008.

### Index of Rate Case Status

- 1 - Case Filed
- 2 - Discovery (Data Requests, Investigation)
- 3 - Negotiations / Evidentiary Hearings / Briefings
- 4 - Recommended order issued / settlement reached, without interim rates
- 5 - Interim rates in effect, awaiting final order

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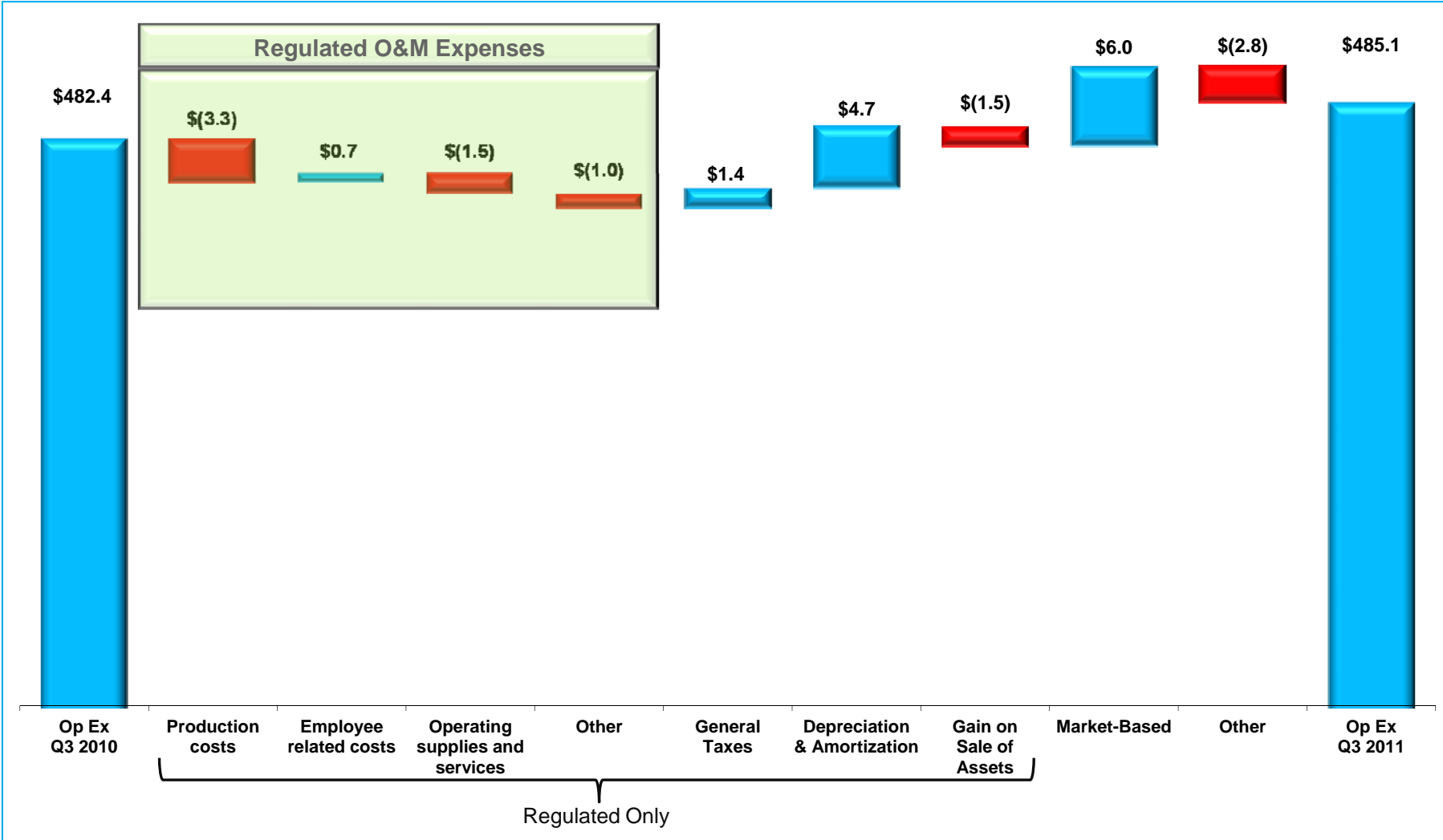
## Comparison of Water Sales Volumes

<u>Customer Class</u>	<u>Billed Water Sales Volumes</u> (In Millions of Gallons)							
	<u>Third Quarter 2011</u>				<u>Year to Date</u>			
	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>%</u>	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>%</u>
Residential	57,184	59,723	(2,539)	(4.3) %	138,794	143,524	(4,730)	(3.3) %
Commercial	25,388	26,433	(1,045)	(4.0) %	61,841	63,564	(1,723)	(2.7) %
Industrial	11,379	11,688	(309)	(2.6) %	30,140	30,307	(167)	(0.6) %
Public & Other	15,602	15,927	(325)	(2.0) %	39,628	41,063	(1,435)	(3.5) %
<b>Total</b>	<b>109,553</b>	<b>113,771</b>	<b>(4,218)</b>	<b>(3.7) %</b>	<b>270,403</b>	<b>278,458</b>	<b>(8,055)</b>	<b>(2.9) %</b>

**Water sales volumes for the three months and nine months ended September 30, 2011 show an overall decrease over the same periods in the prior year due to continuing, 10-year trend of lower usage and conservation**

# Third Quarter 2011 Expense Breakdown

(\$ in millions)



Note: Expenses depicted for production costs, employee-related costs, operating supplies and services, maintenance materials and services, Regulated other, general taxes and depreciation & amortization represent those associated with the Company's Regulated business segment.

# What to Expect from American Water - 2011 Accomplishments

- ❑ Execution of Portfolio Optimization Initiative
  - *Closed MO acquisition and TX sale*
  - *Filed for regulatory approvals for transactions in NM and AZ*
  - *Filed for regulatory approvals for transactions in New York and Ohio*
- ❑ Resolve Rate Cases worth \$93 MM of filed Annualized Revenues by December 31, 2011
  - *3 general rate case decisions generating approximately \$15.5 million in annualized revenue increases and \$39.7 million in infrastructure charges, assuming normal usage patterns.*
  - *Filed 8 rate proceedings YTD requesting \$218.9 million in annualized revenue*
- ❑ Initiate state specific efforts to address declining usage
  - *Addressed in all rate cases filed in 2011*
- ❑ Continue reduction in Operating Efficiency Ratio
  - *Operating Efficiency Ratio improved 50 basis points for last twelve months vs. comparable period in 2010*
- ❑ Increase Earned return on equity
  - *ROE increased 63 bps over comparable last twelve months*
- ❑ Expand Market-Based businesses with focus on Homeowner Services & Military Contract Operations
- ❑ Optimize Municipal Contract Operations Business Model

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# WE CARE ABOUT WATER. IT'S WHAT WE DO.®

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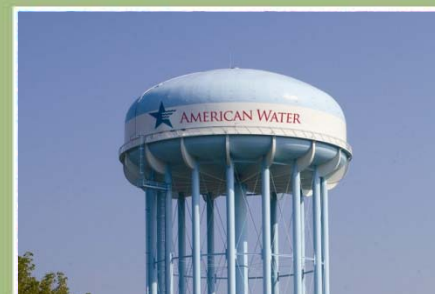
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## Appendix



# Reconciliation Tables

## Regulated Operations and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)

*In thousands*

	Three Months Ended September 30,		LTM Ended September 30,	
	2011	2010	2011	2010
Total Regulated Operation and Maintenance Expenses	\$ 288,147	\$ 293,261	\$ 1,113,704	\$ 1,065,914
Less: Regulated Purchased Water Expenses	29,892	31,784	98,292	98,359
Adjusted Regulated Operation and Maintenance Expenses (a)	<u>\$ 258,255</u>	<u>\$ 261,477</u>	<u>\$ 1,015,412</u>	<u>\$ 967,555</u>
Total Regulated Operating Revenues	\$ 682,363	\$ 675,087	\$ 2,360,196	\$ 2,231,814
Less: Regulated Purchased Water Revenues*	29,892	31,784	98,292	98,359
Adjusted Regulated Operating Revenues (b)	<u>\$ 652,471</u>	<u>\$ 643,303</u>	<u>\$ 2,261,904</u>	<u>\$ 2,133,455</u>
Regulated Operations and Maintenance Efficiency Ratio = (a)/(b)	39.6%	40.6%	44.9%	45.4%

\*As revenues not tracked in this manner, calculation assumes that purchased water revenues approximate purchased water expenses

## Net income, exclusive of the cessation of depreciation associated with assets of discontinued operations (a Non-GAAP, unaudited measure)

*In thousands*

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Net income	\$ 137,422	\$ 269,320
Less: Cessation of depreciation, net of tax	3,493	11,381
Net income, exclusive of the cessation of depreciation associated with assets of discontinued operations	<u>\$ 133,929</u>	<u>\$ 257,939</u>
Basic earnings per common share:		
Adjusted net income	<u>\$0.76</u>	<u>\$1.47</u>
Diluted earnings per common share:		
Adjusted net income	<u>\$0.76</u>	<u>\$1.46</u>

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# Reconciliation Tables

Return on equity	
<i>In thousands</i>	
	<b>Twelve months ended September 30,</b>
	<b>2011                      2010</b>
Net income	\$        309,474    \$        264,044
Less: Cessation of depreciation, net of tax	11,381                      -
Adjusted net income, exclusive of the cessation of depreciation associated with assets of discontinued operations (a)	\$        298,093    \$        264,044
Common stockholders' equity	\$        4,258,643    \$        4,131,206
Less: Cessation of depreciation, net of tax	11,381                      -
Adjusted common stockholders' equity, exclusive of the cessation of depreciation associated with assets of discontinued operations (b)	\$        4,247,262    \$        4,131,206
Return on equity = (a) / (b)	7.02%                      6.39%

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