Risk Factors Comparison 2023-02-15 to 2022-02-16 Form: 10-K

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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 Annual Report on Form 10- K, the following material 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, cash flows and liquidity. Risks Related to Our Industry and Business Operations Our Regulated Businesses are subject to extensive regulation by state PUCs and other regulatory agencies, which significantly affects our business, financial condition, results of operations and cash flows. Our Regulated Businesses also may be subject to fines, penalties and other sanctions for an inability to meet these regulatory requirements. Our Regulated Businesses provide water and wastewater services to our customers through subsidiaries that are subject to regulation by state PUCs. This regulation affects the rates we charge our customers and has a significant impact on our business and 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 with the opportunity to earn an appropriate rate of return on 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 or may not be approved, or may be partially approved, and any approval may not occur in a timely manner. Moreover, a PUC may not approve a rate request ~~to~~ **in** an ~~extent~~ **amount** that is sufficient to: • cover our ~~expenses~~ **cost of operations** , including **:** purchased water **;** ~~and costs of~~ chemicals ~~,~~ **; and** fuel **, power** and other commodities used in our operations **; • cover our operational labor and labor- related expenses, including without limitation costs and expenses associated with our pension and other post- employment benefits** ; • enable us to recover our investment; and • provide us with an opportunity to earn an appropriate rate of return on our investment. Approval by the PUCs is also required in connection with other aspects of our Regulated Businesses, which are required to have numerous permits, approvals and certificates from the PUCs that regulate their businesses and authorize acquisitions, dispositions, debt and / or equity financing, and, in certain cases, affiliated transactions. Some state PUCs are empowered to impose financial penalties, fines and other sanctions for non- compliance with applicable rules and regulations. Although we believe that each utility subsidiary has obtained or sought renewal of the material permits, approvals and certificates necessary for its existing operations, we are unable to predict the impact that future regulatory activities may have on our business. ~~PUCs and other governmental authorities have taken, and may continue to take, emergency or other actions in light of the on- going COVID- 19 pandemic that may impact us, including prohibiting the termination of service for non- payment and extending or delaying procedural schedules in our regulatory proceedings. We are unable to predict the range of impacts that the ongoing COVID- 19 pandemic and other related events may have on our ability to obtain these approvals as needed or requested by our Regulated Businesses in the ordinary course or at all, or the nature or impacts of any further emergency or other action that may be taken by the PUCs or other governmental authorities.~~ In any of these cases, our business, financial condition, results of operations, cash flows and liquidity may be adversely affected. Even if the rates approved 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, **(i)** water usage is less than the level anticipated in establishing rates, **(ii)** customers increase their conservation efforts, ~~or~~ **(iii)** we experience ~~unanticipated impacts of~~ **unusual or emergent situations, events or conditions (including with respect to** the ~~on- going~~ COVID- 19 pandemic **)** , or ~~if~~ **(iv)** our investments or expenses prove to be higher than the levels estimated in establishing rates **. It may be difficult to predict the outcome or impact of these events on us or the actions that may be taken by the PUCs or other governmental authorities in response thereto** . Our operations and the quality of water we supply are subject to extensive and increasingly stringent environmental, water quality and health and safety laws and regulations, including with respect to contaminants of emerging concern, compliance with which could impact both our operating costs and capital expenditures, and violations of which could subject us to substantial liabilities and costs, as well as damage to our reputation. Our ~~regulated~~ water and wastewater operations ~~and the operations of our Market- Based Businesses~~ are subject to extensive federal, state and local laws and regulations. These requirements include, among others, CERCLA, the Clean Water Act, the Safe Drinking Water Act, the ~~LCR~~ **LCRR** ~~,~~ and other federal and state requirements. For example, state PUCs and environmental regulators 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 providing water service 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. In addition, CERCLA authorizes the EPA to issue orders and bring enforcement actions to compel responsible parties to investigate and take remedial actions with respect to actual or threatened releases of hazardous substances, and can impose joint and several liability, without regard to fault, on responsible parties for the costs thereof. We are also required to obtain various environmental permits from regulatory agencies for our operations. 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, 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 Regulated Businesses through customer 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, including potential releases of hazardous chemicals, such as chlorine, which we use to treat water, or at off- site locations where we have disposed of residual 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. Attention is being given to contaminants of emerging concern, including, without limitation, chemicals and other substances that currently do not have any regulatory standard in drinking water or have been recently created or discovered (including by means of scientific achievements in the analysis and detection of trace amounts of substances). Examples of sources of contaminants include, but are not limited to, newly created chemical compounds (including, for example, manufactured nanomaterials); human and veterinary products; perfluorinated and polyfluorinated compounds; bacteria, microbes, viruses (including ~~the coronavirus~~ **COVID- 19**), amoebae and other pathogens; and residual by- products of disinfection. We rely upon governmental agencies to set appropriate regulatory standards to protect the public from these and other contaminants, and our role is to provide service that meets these standards, if any. In some of our states, PUCs may disapprove of cost recovery, in whole or in part, for implementation of treatment infrastructure for a contaminant in the absence of a regulatory standard. Furthermore, given the rapid pace at which these contaminants are being created and / or discovered, we may not be able to detect and / or mitigate all such substances in our drinking water system or supplies, which could have a material adverse impact on our financial condition, results of operations and reputation. In addition, we believe these contaminants may form the basis for additional or increased federal or state regulatory initiatives and requirements in the future, which could significantly increase the cost of our operations. Limitations on availability of water supplies or restrictions on our use of water supplies **because** ~~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, groundwater aquifers and recycled water sources, are held in the public trust and are not generally owned by private interests. As a result, we typically do not own the source 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 or by entering into water purchase agreements. These requirements, which can change from time to time, and vary by state or region, may adversely impact our water supply. Supply issues, such as drought, overuse of sources of water, the protection of threatened species or habitats, contamination or other factors may limit the availability of ground and surface water. If we are unable to secure available or alternative sources of water, our business, financial condition, results of operations and cash flows could be adversely affected. For example, in our Monterey County, California operations, we are seeking to augment our sources of water supply, principally to comply with **the cease** ~~an~~ **and desist orders issued by the SWRCB in July 1995 and** October 2009 ~~cease and desist order~~ (**the “ 1995 Order, ”** the “ 2009 Order ” ~~)~~ **and** , as amended **in** ~~by a~~ July 2016 **,** ~~order (~~ the “ 2016 Order ” **and, collectively, the “ Orders ”**) ~~, of the SWRCB~~ that ~~requires~~ - **require Cal Am** ~~our California subsidiary~~ to significantly decrease its diversions from the Carmel River in accordance with a reduction schedule that terminated on December 31, 2021 ~~(the “ 2021 Deadline ”)~~. See Item 3 — Legal Proceedings — Alternative Water Supply in Lieu of Carmel River Diversions, which includes additional information regarding this matter. We are also required to augment our Monterey County sources of water supply to comply with the requirements of the Endangered Species Act. **For** ~~Beginning in January~~ 2022, Cal Am **complied** ~~currently expects that it will be able to comply~~ with the diversion **limitations** ~~reduction requirement schedule~~ contained in the 2016 Order, but continued compliance with ~~the~~ **these limitations in** ~~diversion reduction requirements for~~ 2023 and future years **may be impacted by a number of factors, including without limitation continued drought conditions in California and the exhaustion of water supply reserves, and** will **require** ~~depend on~~ successful development of alternate water supply sources sufficient to meet customer demand ~~. The 2009 Order and the 2016 Order remain in effect until Cal Am certifies to the SWRCB, and the SWRCB concurs, that Cal Am has obtained a permanent supply of water to substitute for past unauthorized Carmel River diversions~~ . While the Company cannot currently predict the likelihood or result of any adverse outcome associated with these matters, further attempts to comply with the ~~2009 Order~~ **Orders** ~~and the 2016 Order~~ may result in material additional costs or obligations, including fines and penalties against **Cal Am** ~~our California subsidiary~~ in the event of noncompliance with the ~~2009 Order~~ **Orders** ~~and the 2016 Order~~ , which could have a material adverse effect upon us and our business, results of operations and cash flows. Service disruptions caused by severe weather conditions, climate variability patterns or natural or other disasters may disrupt our operations or reduce the demand for our water services, which could adversely affect our financial condition, results of operations, cash flows and liquidity. Service interruptions due to severe weather, climate variability patterns and natural or other events are possible across all our businesses. These include, among other things, storms, freezing conditions, high wind conditions, hurricanes, tornadoes, earthquakes, landslides, drought, wildfires, coastal and intercoastal floods or high water conditions, including those in or near designated flood plains, pandemics (including ~~the~~ COVID- 19 ~~pandemic~~) and epidemics, severe electrical storms, sinkholes and solar flares. Weather and other natural 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. Tariffs in place or cost recovery proceedings with respect to our Regulated Businesses may not provide reimbursement to us, in whole or in part, for any of these impacts. 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, results of operations and cash flows. Seasonal **and other** drought conditions **, including, for example, those currently being experienced in California,** that may impact our water services are possible across all of our service areas. Governmental restrictions imposed in response to a drought may apply to all systems within a region independent of the supply adequacy of any individual system. Responses may range from voluntary to mandatory water use restrictions, rationing restrictions, water conservation regulations, and requirements to minimize water system leaks. While expenses incurred in implementing water conservation and rationing plans may generally be recoverable provided the relevant PUC determines they were reasonable and prudent, we cannot ~~assure~~ **be certain** that any such expenses incurred 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 **a** ~~drought restrictions are repealed and the~~ drought has ended **and restrictions are lifted** , which could adversely affect our business, financial condition, results of operations and cash flows. Climate variability may cause increased volatility in weather and may impact water usage and related revenue or require additional expenditures, all of which may not be fully recoverable in rates or otherwise. The issue of climate variability is receiving increasing attention nationally and worldwide. There is consensus among climate scientists that there will be worsening of weather volatility in the future associated with climate variability. Many climate variability predictions present several potential challenges to water and wastewater utilities, including us, such as: • increased frequency and duration of droughts; • increased precipitation and flooding; • increased frequency and severity of storms and other weather events; • challenges associated with changes in temperature or increases in ocean levels; • potential degradation of water quality; • decreases in available water supply and changes in water usage patterns; • increases in disruptions in service; • increased costs to repair damaged facilities; or • increased costs to reduce risks associated with the increasing frequency and severity of natural events, including to improve the resiliency and reliability of our water and wastewater treatment and conveyance facilities and systems. Because of the uncertainty of weather volatility related to climate variability, we cannot predict its potential impact on our business, financial condition, results of operations, cash flows and liquidity. Furthermore, laws and regulations have been enacted **or proposed** that seek to reduce or limit ~~GHG~~ **greenhouse gas** emissions and **require or would** require additional reporting and monitoring, and these regulations may become more pervasive or stringent in light of changing governmental agendas and priorities, although the exact nature and timing of these changes is uncertain. Although some or all potential expenditures and costs associated with the impact of climate variability and related laws and regulations on our Regulated Businesses could be recovered through rates, infrastructure replacement surcharges or other regulatory mechanisms, there can be no assurance that state PUCs would authorize rate increases to enable us to recover such expenditures and costs, in whole or in part. The current regulatory rate setting process may result in a significant delay, also known as " regulatory lag, " from the time that we invest in infrastructure improvements, incur increased operating expenses as a result of inflation or other factors, incur increased cost of capital, including as a result of increasing short- and long- term rates, or experience declining water usage, to the time at which we can seek to address these events in rate case applications; our inability to mitigate or minimize regulatory lag could adversely affect our business. There is typically a delay, known as " regulatory lag, " between the time our Regulated Businesses make a capital investment or incur 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 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 mitigate or reduce regulatory lag could have an adverse effect on our financial condition, results of operations, cash flows and liquidity. We endeavor to mitigate or reduce regulatory lag by pursuing constructive regulatory practices. For example, two of our states have approved revenue stability mechanisms that adjust rates periodically to ensure that a utility' s revenue will be sufficient to cover its costs regardless of sales volume, including recognition of declining sales resulting from reduced consumption, while providing an incentive for customers to use water more efficiently. In addition, 10 of our state PUCs permit rates to be adjusted outside of the general 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. Furthermore, in setting rates, nine of our state PUCs allow us to use future test years, which extend beyond the date a rate request is filed to allow for current or projected revenues, expenses and investments to be reflected in rates on a more timely basis. Other examples of such regulatory practices include expense mechanisms that allow us to increase rates for certain cost increases that are beyond our control, such as purchased water costs, property or other taxes, or power, conservation, chemical or other expenditures. These mechanisms enable us to adjust rates in less time after costs have been incurred than would be the case under a general rate case application process without the mechanisms. While these mechanisms have mitigated or reduced regulatory lag in several of our regulated states, we continue to seek approval of regulatory practices to mitigate or reduce regulatory lag in those jurisdictions that have not approved them. Furthermore, PUCs may fail to adopt new surcharges and existing mechanisms may not continue in their current form, or at all, or we may be unable or become ineligible to continue to utilize certain of these mechanisms in the future. Although we intend to continue our efforts to seek state PUC approval of constructive regulatory practices to mitigate or reduce regulatory lag, our efforts may not be successful, or even if partially successful, our business, financial condition, results of operations, cash flows and liquidity may be materially and adversely affected. Changes in laws and regulations can significantly and materially affect our business, financial condition, results of operations, cash flows and liquidity. The impact of any future revisions or changes in interpretations of existing regulations or the adoption of new laws and regulations applicable to our Regulated Businesses is uncertain. Changes in laws or regulations, the imposition of additional laws and regulations, changes in enforcement practices of regulators, government policies or court decisions can materially affect our operations, results of operations and cash flows. Certain of the individuals who serve as regulators are elected or political appointees. Therefore, elections which result in a change of political administration or new appointments may also result in changes of the individuals who serve as regulators and changes in 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 increase 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 and other regulatory proceedings; • 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 or wastewater services at reduced rates to certain customers; • limiting or restricting our ability to acquire water or wastewater systems, purchase or dispose of assets, or issue long- term debt or equity, or making it less cost- effective for us to do so; • negatively impacting, among other things: (i) tax rates or positions or the deductibility of expenses under federal or state tax laws, (ii) the availability or amount of, or our ability to comply with the terms and conditions of, tax credits or tax abatement benefit, (iii) the amount of taxes owed, (iv) the timing of tax effects on rates or (v) the ability to utilize our net operating loss carryforwards; • changing regulations that affect the benefits we expected to receive when we began offering services in a particular area; • increasing the associated costs of, or difficulty complying with, environmental, health, safety, consumer privacy, water quality, and water quality accountability laws and regulations to which our operations are subject; • 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 condemnation, eminent domain or other similar process, or for governmental agencies or private plaintiffs to assess liability against us for damages under these or similar processes; • **increasing the costs or difficulty of complying with proposed changes to federal contractor affirmative action audits; •** 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 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 a CPCN issued to us by a state PUC or other governmental authority. Regulatory and environmental risks associated with the collection, treatment and disposal of wastewater may impose significant costs and liabilities. The wastewater collection, treatment and disposal operations of our subsidiaries are subject to substantial regulation and involve environmental risks. If collection, treatment or disposal systems fail, overflow, or do not operate properly, untreated or inadequately treated 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, financial condition, results of operations and cash flows. Certain of our wastewater systems have commercial and industrial customers that are subject to specific limitations on the type, character and strength of the wastewater they are permitted to discharge into our systems. The failure by these commercial and industrial customers to comply with their respective discharge requirements could, in turn, negatively impact our operations, damage our facilities or cause us to exceed applicable discharge limitations and requirements. Liabilities resulting from such exceedance events could adversely and materially affect our business, financial condition, results of operations and cash flows. A loss of one or more large industrial or commercial customers could have a material adverse impact upon the results of operations of one or more of our Regulated Businesses. Adverse economic conditions ~~, including the COVID- 19 pandemic or other factors,~~ may cause our customers, particularly industrial and large commercial customers, to curtail operations. A curtailment of operations by such a customer typically results in reduced water usage by that customer. In more severe circumstances, the decline in usage could be permanent. Any decrease in demand resulting from difficult economic conditions affecting these customers could adversely affect our financial condition and results of operations. Tariffs in place with respect to our Regulated Businesses may not reimburse us, in whole or in part, for any of these impacts. Our Regulated Businesses require significant capital expenditures and may suffer if we fail to secure appropriate funding to make investments, experience increases in short- and long- term interest rates 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, and to improve aging infrastructure. In ~~2021~~ **2022** , we invested $ ~~1~~ **2** . ~~8~~ **3** billion in net Company- funded capital improvements. The level of capital expenditures necessary to maintain the integrity of our systems will continue into the future and, we believe, will increase. We expect to fund capital improvement projects using cash generated from operations (including, among other things, a portion of the net proceeds from the ~~sales~~ - **sale** of HOS ~~and our New York subsidiary~~) ~~,~~ borrowings under our revolving credit facility and commercial paper programs and issuances of long- term debt and equity. We may not be able to access our revolving credit facility or the commercial paper, long- term debt and equity capital markets, when necessary or desirable to fund capital improvements on favorable terms or at all. If we are not able to obtain sufficient financing, we may be unable to maintain our existing property, plant and equipment, fund our capital investment strategies ~~,~~ **or expand our rate base to enable us to** 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 supply chain interruptions, construction delays, permitting delays, labor shortages or other disruptions, environmental restrictions, legal and regulatory challenges, or other obstacles. Each of these outcomes could adversely affect our business, financial condition, results of operations and cash flows. Aging infrastructure may lead to service disruptions, property damage and increased capital expenditures and O & M **expenses and other** costs, all of which could negatively impact our financial results. We have risks associated with aging infrastructure, including water and sewer mains, pumping stations and water and wastewater treatment facilities. Additionally, we may have limited information regarding buried and newly acquired assets, which could challenge our ability to conduct efficient asset management and maintenance practices. Assets that have aged beyond their expected useful lives may experience a higher rate of failure. Failure of aging infrastructure could result in increased capital expenditures and O & M **expenses and other** costs, and negatively impact our future O & M efficiency ratio. In addition, failure of aging infrastructure may result in property damage, and in safety, environmental and public health impacts. To the extent that any increased costs or expenditures are not fully recovered in rates, our results of operations, liquidity and cash flows could be negatively impacted. Seasonality could adversely affect the volume of water sold and our revenues. The volume of water we sell during the warmer months, typically in the summer, is generally greater than during other 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, the volume of water sold 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 amount of water we sell may decrease and adversely affect our revenues. Two of our jurisdictions, California and Illinois, **currently** have ~~adopted~~ revenue stability mechanisms that permit us to recover the revenues authorized in a general rate case, regardless of sales volume. Revenue stability mechanisms are designed to recognize declining sales resulting from reduced consumption, while providing an incentive for customers to use water more efficiently. In those jurisdictions that have not adopted a revenue stability mechanism, our operating results could continue to be affected by seasonality. Contamination of water supplies or our water service provided to our customers could result in service limitations and interruptions and exposure to substances not typically found in potable water supplies, and could subject us and our subsidiaries to reductions in usage and other responsive obligations, government enforcement actions, damage to our reputation and private litigation. The water supplies that flow into our treatment plants or are delivered through our distribution system, or the water service that is provided to our customers, may be subject to contamination, including, among other items, contamination from naturally- occurring compounds, chemicals in groundwater systems, pollution resulting from manufactured sources (such as perchlorate, perfluorinated and polyfluorinated compounds, methyl tertiary butyl ether, 1, 4- dioxane, lead and other materials, or chemical spills or other incidents that result in contaminants entering the water source), and possible terrorist attacks or other similar incidents. In addition, new categories of contaminants continue to emerge in the water industry. If one of our water supplies or the water service provided to our customers is contaminated, depending on the nature of the contamination, we may have to take responsive actions that could include, among other things (1) limiting 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, in whole or in part, potentially impacting basic sanitation and fire protection needs. If service is disrupted, 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 the expansion of our current treatment facilities or the development of new sources of supply or new treatment methods. We may be unable to recover costs associated with treating or decontaminating water supplies through insurance, customer rates, tariffs or contract terms, and any recovery of these costs that we are able to obtain through regulatory proceedings or otherwise 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 an interruption of service or human exposure to hazardous substances in our drinking water and water supplies. See Item 3 — Legal Proceedings for information on certain pending lawsuits related to interruptions of water service. Since we are engaged in the business of providing water service to our customers, contamination of the water supply, or the water service provided to our customers, could 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. We may not be protected from these claims or negative impacts of these claims in whole or in part by tariffs or other contract terms. Negative impacts to our reputation may occur even if we are not liable for any contamination or other environmental damage or the consequences arising out of human exposure to contamination or hazardous substances within the water supply or distributed finished drinking water. In addition, insurance coverage may not cover all or a portion of these losses, and are subject to deductibles and other limitations. Pending or future claims against us could have a material adverse impact on our business, financial condition, results of operations and cash flows. We are subject to adverse publicity and reputational risks, which make us vulnerable to negative customer perception and could lead to increased regulatory oversight or sanctions. Our business and operations have a large direct and indirect customer base and, as a result, we are exposed to public criticism regarding, among other things, the reliability of water service, wastewater and related or ancillary services, the quality of water provided, and the amount, timeliness, **content,** accuracy and format of bills that are provided for such services. Adverse publicity and negative consumer sentiment arising out of **our operations** ~~these and other incidents~~ may render legislatures and other governing bodies, state PUCs and other regulatory authorities, and government officials less likely to view us in a favorable light, and may cause us to be susceptible to less favorable legislative, regulatory and economic outcomes, as well as increased regulatory or other oversight and more stringent regulatory or economic requirements. Unfavorable regulatory and economic outcomes may include the enactment of more stringent laws and regulations governing our operations and less favorable economic terms in our agreements related to **MSG** ~~our Military Services Group~~ , as well as fines, penalties or other sanctions or requirements. The imposition of any of the foregoing could have a material negative impact on us and our financial condition, results of operations and cash flows. The failure of, or the requirement to repair, upgrade or dismantle, any of our dams may adversely affect our financial condition, results of operations, cash flows and liquidity. The properties of our Regulated Businesses segment include ~~76~~ **73** dams, the majority of which are earthen dams. The failure of any of these dams could result in personal injury and property damage, including without limitation 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, water mains 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, water mains and storage systems located across the United States. A failure of major pipes, mains or reservoirs could result in injuries, property and other damage for which we may be liable. The failure of major pipes, mains 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. An important part of our growth strategy is the acquisition of water and wastewater systems, which involves risks, including competition for acquisition opportunities from other regulated utilities, governmental entities and other buyers, which may hinder or limit our ability to grow our business. An important element of our growth strategy is the acquisition and optimization of water and wastewater systems in order to broaden our current, and move into new, service areas. We may not be able to acquire other systems or businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates **, and whether or not any particular acquisition is successfully completed, these activities are expensive and time consuming and are subject to the availability of capital and personnel resources to complete such acquisitions** . Further, competition for acquisition opportunities from other regulated utilities, governmental entities and other **strategic and financial** buyers may hinder our ability to expand our business **. As consolidation activity increases in the water and wastewater industries and competition for acquisitions continues to increase, the prices for suitable acquisition candidates may increase and limit our ability to expand through acquisitions** . The negotiation and execution of potential acquisitions as well as the integration of acquired systems or businesses with our existing operations could require us to incur significant costs ~~and~~ **,** cause diversion of our management' s time and resources **and have a material adverse impact on our results of operations** . Future acquisitions by us could result in, among other things: • **unanticipated capital expenditures; • unanticipated acquisition- related expenses; •** incurrence or assumption of debt, contingent liabilities and environmental liabilities and obligations, including liabilities that were unknown or undisclosed at the time of acquisition; • failure to recover acquisition **adjustments or** premiums ~~; • unanticipated capital expenditures~~ **due to unfavorable decisions by PUCs and other governmental authorities** ; • failure to maintain effective internal control over financial reporting; • ~~the need to successfully integrate the acquired systems' operations and water quality, cybersecurity and infrastructure protection measures; •~~ recording goodwill and other intangible assets at values that ultimately may be subject to impairment charges; • fluctuations in quarterly **and / or annual** results ~~; • unanticipated acquisition- related expenses~~ ; • failure to realize anticipated benefits and synergies, such as cost savings and revenue enhancements; and • difficulties in integrating or assimilating **acquired systems' operations,** personnel, benefits, services and systems **and water quality, cybersecurity and infrastructure protection measures** . Some or all of these items could have a material adverse effect on our business. The systems and businesses we acquire in the future may not achieve anticipated revenue, return on equity or profitability, or other perceived synergies, and any difficulties we encounter in the integration process could interfere with our operations, reduce our net income and profitability or adversely affect our internal control over financial reporting ~~. We compete with governmental entities, other regulated utilities, and strategic and financial buyers for acquisition opportunities. As consolidation activity increases in the water and wastewater industries and competition for acquisitions continues to increase, the prices for suitable acquisition candidates may increase and limit our ability to expand through acquisitions~~ . Our Regulated Businesses are subject to condemnation and other proceedings through eminent domain or other similar authorized process, which could materially and adversely affect their results of operations and financial condition. 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, or another similar authorized process. A municipality, other government subdivision or a citizen group may seek to acquire our assets through eminent domain or such other process, either directly or indirectly as a result of a citizen petition. For example, in November 2018, Monterey, California ballot Measure J, which was added by a citizens group, was certified as having been approved by a public vote, requiring the MPWMD to conduct a study and submit a written plan concerning the feasibility of a potential purchase of the Monterey system assets without an additional public vote. The public vote led to the issuance by the MPWMD ~~in November 2019~~ of **(i)** a preliminary report finding, among other things, that the acquisition of the Monterey system assets by the MPWMD would be economically feasible ~~. Also~~ , **and (ii)** ~~five municipalities in the Chicago, Illinois area formed~~ a ~~water agency that filed~~ **final environmental impact report analyzing the environmental impacts of such** an **acquisition through the power of** eminent domain ~~lawsuit~~

~~against our Illinois subsidiary in January 2013, seeking to condemn a water pipeline that serves those five municipalities. This lawsuit remains pending, and a valuation trial is scheduled for the second quarter of 2022~~ . See Item 1 — Business — Regulated Businesses — Condemnation and Eminent Domain **and Item 3 — Legal Proceedings — Proposed Acquisition of Monterey System Assets — Local Area Formation Commission Litigation** , which includes additional information regarding these matters. Furthermore, the law in certain jurisdictions in which our Regulated Businesses operate provides for eminent domain rights allowing private property owners to file a lawsuit to seek just compensation against a public utility, if the public utility' s infrastructure has been determined to be a substantial cause of damage to that property. In these actions, the plaintiff would not have to prove that the public utility acted negligently. In California, lawsuits have been filed in connection with large- scale natural events such as wildfires. Some of these lawsuits have included allegations that infrastructure of certain utilities triggered the natural event that resulted in damage to the property. In some cases, the PUC has disallowed recovery in rates of losses incurred by these utilities as a result of such lawsuits. Contesting an exercise of condemnation, eminent domain or other similar process, or responding to a citizen petition, may result in costly legal proceedings and may divert the attention of management. Moreover, our efforts to resist the condemnation, eminent domain or other process may not be successful, which may require us to sell the operations at issue in a condemnation proceeding or to pay a private property owner compensation for the property damage suffered. If a municipality or other government subdivision succeeds in acquiring the assets of one or more of our Regulated Businesses through eminent domain or other process, 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 charges. Any of these outcomes may have a material adverse effect on our business, results of operations, financial condition, cash flows and liquidity. We may be subject to physical and cyber attacks. As operators of critical infrastructure, we may face a heightened risk of physical and cyber attacks from internal or external sources. Our water and wastewater systems may be vulnerable to disability or failures as a result of physical or cyber attacks, acts of war or terrorism, vandalism or other causes. Our operational and technology systems throughout our businesses may be vulnerable to unauthorized external or internal access, due to hacking, viruses, acts of **violence,** war or terrorism, and other causes. Unauthorized access to confidential information located or stored on these systems could negatively and materially impact our **reputation,** customers, employees, suppliers and other third parties. Further, third parties, including vendors, suppliers and contractors, who perform certain services for us or administer and maintain our sensitive information, could also be targets of cyber attacks and unauthorized access **to their operational or technology systems** . While we have instituted safeguards to protect our operational and technology systems, those safeguards may not always be effective due to the evolving nature of cyber attacks and cyber vulnerabilities. We cannot guarantee that such protections will be completely successful in the event of a cyber attack. If, despite our security measures, a significant physical attack or cyber breach occurred, our operations could be disrupted, property damaged, and customer and other confidential information lost or stolen; we could experience substantial loss of revenues, response costs and other financial loss; we could suffer a loss of management time, attention and resources from our regular business operations; ~~and~~ we may be subject to increased ~~regulation~~ - **regulatory** ~~,~~ **requirements; and we may experience** litigation and damage to our reputation, any of which could have a negative impact on our business, results of operations and cash flows. Experiencing a **physical or** cyber security incident could also cause us to be non- compliant with applicable laws and regulations or contracts that require us to **report cybersecurity incidents or breaches or** securely maintain confidential data, causing us to incur costs related to legal claims or proceedings and regulatory fines or penalties. These types of events, either impacting our facilities or the industry in general, could also cause us to incur additional security and insurance related costs. In addition, in the ordinary course of business, we collect and retain sensitive information, including personally identifiable information, about our customers and employees. In many cases, we outsource administration of certain functions to vendors that ~~could~~ **have been and will continue to** be targets of cyber attacks. Any theft, loss or fraudulent use of customer, employee or proprietary data as a result of a cyber attack **on us or a vendor** could **also** subject us to significant litigation, liability and costs, as well as adversely impact our reputation with customers and regulators, among others. We have obtained ~~cyber~~ insurance to provide coverage for a portion of the losses and damages that may result from a **physical attack, cyber attack or a** security breach, but such insurance is subject to a number of exclusions and may not cover the total loss or damage caused by **an attack or** a breach. ~~The~~ **Furthermore, the** market for cybersecurity insurance is relatively new and coverage available for cybersecurity events ~~may~~ **will likely** evolve as the industry matures. In the future, adequate insurance may not be available at rates that we believe are reasonable, and the costs of responding to and recovering from a **physical attack,** cyber **attack or security breach** incident may not be covered by insurance or recoverable in rates. Our business is subject to complex and evolving federal, state and local laws and regulations regarding consumer privacy and the protection or transfer of data relating to individuals, which could result in, among other things, **public disclosure of incidents,** private or governmental claims or litigation against us, changes to our business practices, monetary penalties, reputational harm and increased cost of operations. Laws and regulations are changing and increasing rapidly with respect to data and consumer privacy, security and protection. We are ~~becoming~~ subject to an increasing number of complex and continually evolving data and consumer privacy, security and protection laws and regulations administered by various federal, state and local governments, including, for example, the California Consumer Privacy Act of 2018 **, together with its amendments and implementing regulations, the Virginia Consumer Data Protection Act and the Cyber Incident Reporting for Critical Infrastructure Act of 2022. New laws and regulations may require us to disclose incidents to authorities, regulators and / or the public, when we otherwise may not have been required to disclose such incidents under previous laws and regulations, and such disclosures could negatively and materially impact our reputation, customers, employees, suppliers and other third parties** . Federal and state governments have also adopted or are proposing other limitations on, or requirements regarding, the collection, distribution, use, security and storage of personally identifiable information. In addition, the Federal Trade Commission and state attorneys general are applying federal and state consumer protection laws to impose standards on the collection, use and dissemination of data. Moreover, we expect that current laws, regulations and industry standards concerning privacy, data protection and information security in the United States will continue to evolve and increase, and we cannot determine the impact that compliance with such future laws, regulations or standards will have on us or on our business. Any failure or perceived failure by us to comply with current or future federal, state, or local data or consumer privacy or security laws, regulations, policies, guidance, industry standards, or legal obligations, or any incident resulting in unauthorized access to, or **the** acquisition, release, or transfer of **,** personally identifiable information or other data relating to our customers, employees and others, may result in private or governmental enforcement actions, litigation or other claims against us, fines and penalties, or adverse perception or publicity about us and our businesses, which could have a material adverse effect on our reputation and business and could result in us incurring substantial costs. These events could also require us to change our business practices, and the events or such changes may result in significant diversions of resources, distract management and divert the focus and attention of our security and technical personnel from other critical activities. Any of the foregoing consequences could have a material adverse effect on our business, financial ~~condition, results of operations, cash flows and liquidity.~~ We may sustain losses that exceed or are excluded from our insurance coverage or for which we are self- insured. We maintain insurance coverage **, some of which may be self- insured,** as part of our overall legal and risk management strategy to minimize potential liabilities arising from our Regulated Businesses, as well as the operations of **MSG and CSG** ~~our Market- Based Businesses~~ . 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, cybersecurity, terrorism risks 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 self- insured **and must therefore utilize our own financial resources to cover such losses** . Although in the past we have been generally able to obtain insurance coverage related to our business, there can be no assurance 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. We rely on technology to facilitate the management of our business as well as our customer and supplier relationships, and a failure or disruption of implemented technology could materially and adversely affect our business. Technology is an integral part of our business and operations, and any failure or disruption of the technology or related systems we implement could significantly limit our ability to manage and operate our business effectively and efficiently, which, in turn, could cause our business and competitive position to suffer and adversely affect our results of operations. We use technology systems to, among other things, bill customers, process orders, provide customer service, manage certain plant operations and construction projects, **create and** manage our financial records **and other operational data** , track assets, remotely monitor our plants and facilities, and manage human resources, supply chain, inventory, and accounts receivable collections. As a specific example, we depend on water meters to record and communicate the amount of water our customers use **, which information in turn is used to generate customer bills** , and in recent years, we have experienced greater than expected performance failures with certain water meters used in the Regulated Businesses. When ~~these~~ **failures** occur, we work with meter manufacturers to determine and address the cause of such failures. While these and other failures that we have experienced have not to date had a material adverse effect on our operations, there can be no assurance that efforts to address performance failures or other issues we may experience with water meters **or other implemented technology** will be successful **in the future** and that these or future failures of water meters or other **technological** issues will not have a material adverse effect on us. Although we do not believe that the technology we have implemented or may in the future implement is at a materially greater risk of failure than that used by other similar organizations, our technology and operations that use or rely on technology remain vulnerable to damage or interruption from, among other things: failure or interruption of the technology or its related systems; loss or failure of power, internet, telecommunications or data network systems; and operator error or improper operation by, the negligent or improper supervision of, or the intentional acts of, employees, contractors and other third parties. Any or all of these events could have a material adverse impact on our business, results of operations, financial condition and cash flows. An inability to successfully develop and implement new technologies poses substantial risks to our business and operational excellence strategies, which could have a material adverse effect on our business and financial results. A significant part of our long- term strategic **plan** ~~focus~~ **focuses** on safety, operational excellence, **cost and expense efficiency (including** O & M expense efficiency **)** , water quality **and affordability** , asset and capital management and the customer experience ~~includes implementing new technologies for, among other things: customer service and support; environmental compliance; water metering; water quality and source monitoring; cybersecurity; business development and growth; data analysis; employee development and training; and other initiatives~~ . For example, we have made and plan to continue to make significant investments in developing, deploying **, integrating** and maintaining customer- facing technologies, applications to support field service and customer service operations, water source sensor and evaluation technologies, **meter** data **management and** analytics **,** and **intelligent** ~~hyperautomation~~ ----- **automation** technologies ~~and artificial intelligence technologies. Where appropriate, we also seek to align these new technologies with existing technology infrastructure and systems~~ . There can be no assurance that we will be successful in designing, developing, deploying, integrating or maintaining these new technologies. Because these efforts can be long- term in nature, these new technologies may be more costly or time- consuming than expected to design, develop, integrate and complete and may not ultimately deliver the expected or desired benefits upon completion. While we have and will continue to seek to recover costs and earn a return on capital expenditures with respect to the costs and expenses of development and deployment of these new technologies in our Regulated Businesses, there can be no assurance that we will be able to do so in every instance or at all, and our inability to do so may adversely affect our ability to achieve intended **cost and expense, including** O & M expense **,** efficiencies or other key performance results and, ultimately, could materially and adversely impact our business, financial condition, results of operations and cash flows. Our inability to efficiently upgrade and improve our operational and technology systems, or implement new systems, could result in higher than expected costs or otherwise adversely impact our internal controls environment, operations and profitability. Upgrades and improvements to computer systems and networks, or the implementation of new systems, may require substantial amounts of management' s time and financial resources to complete, and may also result in system or network defects or operational errors due to multiple factors, including employees' ability to effectively use the new or upgraded system. We continue to implement technology to improve our business processes and customer interactions, and have installed new, and upgraded existing, technology systems. Any technical or other difficulties in upgrading and improving existing or implementing new technology systems may increase costs beyond those anticipated and have an adverse or disruptive effect on our operations and reporting processes, including our internal control over financial reporting. We may also experience difficulties integrating current systems with new or upgraded systems, which may impact our ability to serve our customers effectively or efficiently. Although we make efforts to minimize any adverse impact on our controls, business and operations, we cannot assure that all such impacts have been or will be mitigated, and any such impacts could harm our business (individually or collectively) and have a material adverse effect on our results of operations, financial condition and cash flows. Disruptions in our supply chain related to goods, such as pipe, chemicals, **power and other** fuel ~~, electricity~~ , equipment, water and other raw materials, and services, could adversely impact our operations and our ability to serve our customers, as well as our financial results. Our ability to serve our customers and operate our business in compliance with regulatory requirements is dependent upon purchasing or securing necessary goods and services from our suppliers and vendors. These items include but are not limited to contracted services, chemicals, pipe, valves, hydrants, fittings, ~~fuel,~~ equipment (including personal protective equipment), water **,** and ~~electricity~~ **power and other fuel** . Examples of supply chain disruptions include reduced quantities of goods available in the marketplace, delays in manufacturing or shipping goods, labor shortages at our suppliers or vendors, natural **or other** disasters and operational impacts to some of our suppliers or vendors. Disruptions in our supply chain related to goods and services have occurred and we anticipate will continue to occur into the foreseeable future **. For example, a recent fire at a plant owned by the sole supplier of permanganate in the Western Hemisphere has severely limited the U. S. supply of potassium and sodium permanganate, two chemicals used by water utilities to treat water. The Company is seeking to utilize alternative methods of treatment and to manage its existing supplies of permanganate, but any inability to source sufficient quantities of these chemicals or utilize alternative chemicals may have a material adverse effect on the Company' s ability to comply with applicable environmental and regulatory requirements** . Supply chain disruptions may cause us to be unable to purchase or otherwise obtain needed goods or services at a reasonable price or at all, and may significantly increase the price of goods and services we may obtain from suppliers and vendors. This, in turn, may adversely impact our operations and our ability to serve our customers in compliance with regulatory requirements, as well as our associated results of operations, cash flows and financial condition. While we attempt to plan for and have contingencies in place to address supply chain disruptions, our mitigation efforts may not be successful or may have further negative impacts on us. Our business has inherently dangerous work sites. If we fail to maintain safe work sites, we may experience workforce or customer injuries or loss of life, and be exposed to financial losses, including penalties and other liabilities. Safety is a core value and a strategy at American Water. Our safety performance and progress to our ultimate desired goal of zero injuries are critical to our ability to carry out our operations effectively and to serve our customers, and thereby, to support our reputation. We maintain health and safety practices to protect our employees, customers, contractors, vendors and the public. Eliminating all hazards all of the time is extremely challenging, but through strict adherence to our health and safety practices, and empowering employees to be safety leaders who are **instructed to and** expected to stop work if deemed " unsafe, " we believe we can achieve an injury- free workplace. At our business sites, including construction and maintenance sites, our employees, contractors and others are often in close proximity to large mechanical operating equipment, moving vehicles, pressurized water, electric and gas utility lines, below grade trenches and vaults, electrical and pneumatic hazards, fall from height hazards, suspended loads, hazardous chemicals and other regulated materials. On many sites, we are responsible for safety and, accordingly, must implement important safety procedures and practices above governmental regulatory requirements. As an essential business that ~~must continue to provide~~ **provides** water and wastewater services ~~during the COVID- 19 pandemic~~ , we are focused on the health and safety of our employees, contractors, vendors, customers and others who work at or visit our worksites. If the procedures we implement are ineffective or are not followed by our employees or others, or we fail to implement procedures, our employees, contractors and others may experience illness, or minor, serious or fatal injuries. Unsafe work sites have the potential to increase employee turnover, expose us to litigation 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, results of operations and cash flows. In addition, our operations can involve the delivery, handling, storage, use and disposal of hazardous chemicals, which, if improperly delivered, handled, stored, used or disposed of, could result in serious injury, death, environmental damage or property damage, and could subject us to penalties or other liabilities. We are also subject to various environmental, transportation and occupational health and safety regulations. Although we maintain functional employee groups whose primary purpose is to implement effective environmental health and safety work procedures and practices throughout our organization, including construction sites and operating facilities, the failure to comply with these regulations or procedures could subject us to liability. Work stoppages and other labor relations matters could adversely affect our results of operations and the ability to serve our customers. As of December 31, ~~2021~~ **2022** , approximately 47 % of our workforce was represented by unions, and we had ~~73~~ **75** collective bargaining agreements in place with 14 different unions representing our unionized employees. These collective bargaining agreements, ~~21~~ **18** of which will expire during ~~2022~~ **2023** , are subject to periodic renewal and renegotiation. We may not be able to successfully renew or renegotiate these labor contracts, or enter into new agreements, on terms that are acceptable 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 disrupt our operations, negatively impact the ability to serve our customers, and result in higher labor costs, which could adversely affect our reputation, 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 financial position, results of operations and cash flows. Financial, Economic and Market- Related Risks Our indebtedness could adversely affect our business 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, ~~2021~~ **2022** , our aggregate long- term and short- term debt balance (including preferred stock with mandatory redemption requirements) was $ ~~11~~ **12** . ~~0~~ **4** 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; • 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 borrow additional funds under the revolving credit facility or issue a combination of new short- term and long- term debt securities and / or equity. We continue to assess our short- and long- term liquidity needs in light of the impact of the COVID- 19 pandemic on the financial and capital markets, especially with respect to the market for corporate commercial paper, which experienced volatility and shortages of liquidity in March 2020. In response to these events, in March 2020, we entered into a $ 750 million 364- day term loan facility and immediately executed a $ 500 million draw thereunder to support our short- term liquidity by retaining that amount in cash. We repaid this term loan facility in full in March 2021.~~ During ~~2021~~ **2022** , we utilized ~~other~~ existing sources of liquidity, such as our current cash balances, cash flows from operations and borrowings under ~~the revolving credit facility as necessary or~~ **our** ~~desirable~~ **commercial paper program,** to meet our short- term liquidity requirements. We believe that existing sources of liquidity will be sufficient to meet our cash requirements for the foreseeable future. **In order to meet our** ~~However, as the impacts of the COVID- 19 pandemic on the economy, the financial and~~ capital ~~markets~~ **expenditure** and ~~our~~ **other** ~~operations~~ **operational** ~~continue to evolve~~ **needs, however** , we ~~will continue~~ **may be required** to ~~assess our liquidity needs~~ **borrow additional funds under the revolving credit facility** . In the event of a sustained market deterioration, we may need to obtain additional sources of liquidity, which would require us to evaluate available alternatives and take appropriate actions. Moreover, additional borrowings may be required to repay or refinance outstanding indebtedness. ~~Other than debt~~ **Debt** ~~with respect to the term loan facility, debt~~ maturities and sinking fund payments in ~~2022,~~ 2023 ~~and~~ **,** 2024 **and 2025** will be $ ~~57~~ **281** million, $ ~~280~~ **476** million and $ ~~474~~ **598** million, respectively. We can provide no assurance that we will be able to access the debt or equity capital markets on favorable terms, if at all, to repay or refinance this debt. Moreover, as new debt is added to our current debt levels, the related risks we now face could intensify, limiting our ability to repay or refinance existing debt on favorable terms. We have in the past entered into, and in the future may enter into, financial derivative instruments, including without limitation, interest rate swaps, forward starting swaps and U. S. Treasury lock agreements. See Item 7A — Quantitative and Qualitative Disclosures About Market Risk. However, these efforts may not be effective to fully mitigate interest rate risk, and may expose us to other risks and uncertainties, including quarterly “ mark to market ” valuation risk associated with these instruments, that could negatively and materially affect our financial condition, results of operations and cash flows. Our ability to pay our expenses and satisfy our debt service obligations depends in significant part on our future performance, which will be affected by the financial, business, economic, competitive, legislative (including tax initiatives and reforms, and other similar legislation or regulation), regulatory and other risk factors described in this section, many of which are 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, reduce capital investments, 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 financial condition, operating results and prospects to be affected materially and adversely. Our inability to access the debt or equity capital or financial markets or other events could affect our ability to meet our **long- term commitments or** 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, during ~~2021~~ **2022** , we ~~generally~~ relied primarily on a ~~$ 2. 25 billion~~ revolving credit facility, ~~a~~ **which was increased from** $ 2. ~~10~~ **25** billion **to $ 2. 75 billion in October 2022, a** commercial paper program, ~~our~~ **which was increased from** $ ~~750~~ **2. 10** ~~million~~ **billion to $ 2. 60 billion** ~~364- day term loan facility (which expired and was repaid~~ in **October** ~~full in March 2021~~ **2022** ~~)~~ **,** and the **debt** capital markets, to satisfy our liquidity needs. The revolving credit facility currently expires in accordance with its terms in ~~March~~ **October** ~~2025~~ **2027** . Historically, we have regularly used our commercial paper program rather than the revolving credit facility as a principal source of short- term borrowing due to the generally more attractive rates we generally could obtain in the commercial paper market. As of December 31, ~~2021~~ **2022** , there were no outstanding borrowings under the revolving credit facility, $ ~~584~~ **1, 177** million of commercial paper outstanding and $ ~~76~~ **78** million in outstanding letters of credit. There can be no assurance that we will be able to continue to access this commercial paper program or revolving credit facility, when, as and if desired, or that the amount of capital available thereunder will be sufficient to meet all of our liquidity needs at a reasonable, or any, cost. **Our ability to comply with covenants in our revolving credit facility and our other consolidated indebtedness is subject to various risks and uncertainties, including events beyond our control. For example,** ~~Under~~ **under** the terms of the revolving credit facility, our consolidated debt cannot exceed 70 % of our consolidated capitalization, as determined under the terms of the facility. If our equity were to decline or debt were to increase to a level that causes us to exceed this limit, lenders under the facility would be entitled to refuse any further extension of credit and to declare all of the outstanding debt thereunder immediately due and payable. **Events that could cause a reduction in equity include, without limitation, a significant write- down of our goodwill.** To avoid such a default, a waiver or renegotiation of this covenant would be required, which would likely increase funding costs and could result in additional covenants that would restrict our operational and financing flexibility. ~~Our ability to comply with this and other covenants contained in the revolving credit facility and our other consolidated indebtedness is subject to various risks and uncertainties, including events beyond our control. For example, events that could cause a reduction in equity include, without limitation, a significant write- down of our goodwill.~~ Even if we are able to comply with this or other covenants, the limitations on our operational and financial flexibility could harm our business by, among other things, limiting our ability to incur indebtedness or reduce equity in connection with financings or other corporate opportunities that we may believe would be in our best interests or the interests of our shareholders to complete. **In order to meet our capital expenditure needs, we intend to issue a combination of short- term and long- term debt securities and / or additional equity shares of common stock.** Disruptions in the **debt or equity** capital markets or changes in our credit ratings **or other events** could ~~also~~ limit our ability to access capital on terms favorable to us or at all. While the lending banks that participate in the revolving credit facility have to date honored their commitments under those facilities, 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 such a case, we may not be able to access the commercial paper ~~or~~ **,** debt or **equity** capital markets, or other sources of potential liquidity, in the future on terms acceptable to us or at all. Furthermore, our inability to maintain, renew or replace commitments under our revolving credit facility could materially increase our cost of capital and adversely affect our financial condition, results of operations and liquidity. Short- or long- term disruptions **or volatility** in the **debt or equity** capital and credit markets as a result of economic, legislative, political or other ~~uncertainty~~ **uncertainties** , including as a result of ~~the COVID- 19 pandemic,~~ changes in U. S. tax and other laws, reduced financing alternatives, or failures of significant financial institutions could adversely affect our access to the **capital necessary to provide adequate** liquidity ~~needed~~ for our business. ~~Any significant~~ **Significant volatility or** ~~disruption~~ **disruptions** in the **debt or equity** capital ~~, debt~~ or 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 delaying or deferring capital expenditures, reducing or suspending dividend payments, and reducing other discretionary expenditures. Finally, **even absent significant volatility or disruptions in the capital markets,** there ~~is~~ **can be** no assurance that we will be able to access ~~the equity~~ markets to obtain capital or financing when necessary or desirable and on terms that are reasonable or acceptable to us. **The occurrence** ~~Any of the foregoing events that impede our access to the debt or equity capital markets, or the failure~~ of any of **these circumstances** ~~our lenders to meet their commitments that result from financial market disruptions,~~ could expose us to increased interest **or other** expense, require us to institute cash **or liquidity** conservation measures or otherwise adversely and materially affect our business, financial condition, results of operations, cash flows and liquidity **, which may limit or impair our ability to achieve our strategic, business and operational goals and objectives** . Parent company may be unable to meet its ongoing and future financial obligations and to pay dividends on its common stock if its subsidiaries are unable to pay upstream dividends or repay funds. Parent company is a holding company and, as such, it has no substantive operations of its own. Substantially all of our consolidated assets are held by subsidiaries. Parent company' s ability to meet its financial obligations and to pay dividends on its common stock is primarily dependent on the net income and cash flows of its subsidiaries and their ability to pay upstream dividends or repay indebtedness to parent company. Prior to paying dividends to parent company, our regulated subsidiaries must comply with applicable regulatory restrictions and financial obligations, including, for example, debt service and preferred and preference stock dividends, as well as applicable corporate, tax and other laws and regulations and agreements, and our covenants and other agreements. Our subsidiaries are separate legal entities and have no obligation to pay or upstream dividends to parent company. A failure or inability of any of these subsidiaries to pay such dividends or repay intercompany obligations could have a material adverse impact on our liquidity and parent company' s ability to pay dividends on its common stock and meet its other obligations. We ~~may not be able to fully utilize our state net operating loss carryforwards. As of December 31, 2021, we had state NOL carryforwards of approximately $ 123 million, and management believes it is more likely than not that these NOL carryforwards will be recovered in the future. Our state NOL carryforwards began to expire in 2021 and will continue to expire through 2041. We~~ have ~~, in the past, been unable to utilize certain of our state NOL carryforwards, and 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 state NOL carryforwards. If we are unable to fully utilize our state 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 have recorded~~ a significant amount of goodwill **and intangible and other assets** , and we may **be required** ~~never realize the full value of our intangible assets, causing us~~ to record impairments ~~that~~ **or changes in fair value to these assets, which** may negatively affect our **financial condition and** results of operations. Our **assets as of December 31, 2022 included $ 1. 1 billion of goodwill and $ 347 million of** total assets **measured and recorded** ~~include $ 1. 1 billion of goodwill~~ at ~~December 31, 2021~~ **fair value on a recurring basis** . The goodwill is primarily associated with the acquisition of American Water by an affiliate of our previous owner in 2003. 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 **, in the past** , we have taken significant non- cash charges to operating results for **impairments to** goodwill **or** ~~impairments in the~~ **other** ~~past~~

intangible assets, and have recorded changes in fair value of financial instruments and other assets . We may be required to recognize **in the future** an impairment of goodwill **or a change** in **fair value of financial instruments or certain** ~~the~~ **other** ~~future~~ **assets** due to market conditions ~~or~~ **,** other factors related to our performance or the performance of an acquired business **, or other circumstances that may impact the fair value of a financial instrument or the other asset. See Note 18 — Fair Value of Financial Information in the Notes to the Consolidated Financial Statements for information on the fair value of financial and other assets** . These market conditions 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 compares unfavorably to our peer companies, decreases in control premiums, or other circumstances. A decline in the results forecasted in our business plan due to events such as changes in rate case results, capital investment budgets or interest rates, could also result in an impairment charge. Recognition of impairments of goodwill **and changes in fair value of certain of our other assets** would result in a charge to income in the period in which the impairment **or change** occurred, which may negatively affect our financial condition, results of operations and total capitalization. The effects of any such impairment **or change** 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 the expectations of our regulators. Market volatility and other conditions may 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 and volatility, which may cause investment returns to fall below our projected return rates. ~~We are currently unable to predict the effect, if any, of the COVID- 19 pandemic or other events on the valuation of our pension assets and liabilities.~~ A decline in the market value of our pension and postretirement benefit plan assets as of the measurement date **or a change in the projection of the future return on 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. Interest rates have experienced volatility and are subject to potential further adjustments based on the actions of the U. S. Federal Reserve, and others. If interest rates are lower at the **current measurement date than the prior** measurement date, our liabilities would increase, potentially increasing benefit expense and funding requirements. Further, changes in assumptions, such as increases in life expectancy assumptions and increasing trends in health care costs 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 the discount rate used in our assumptions is reduced, our benefit obligations could be materially increased, which could adversely affect our financial position, results of operations and cash flows. Additional Risks Related to **Other** ~~Market- Based~~ Businesses Parent company provides performance guarantees with respect to certain of the obligations of our **Other** ~~Market- Based Businesses~~ **businesses** , including financial guarantees or deposits, which may adversely affect parent company if the guarantees are successfully enforced. Under the terms of certain agreements under which our **Other** ~~Market- Based Businesses~~ **businesses** , primarily MSG, provide water and wastewater services to municipalities and federal governmental entities, parent company provides guarantees of specified performance obligations, including financial guarantees or deposits. In the event these obligations are not performed, the entity holding the guarantees may seek to enforce the performance commitments against parent company 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, ~~2021~~ **2022** , we had remaining performance commitments **,** as measured by remaining contract revenue **,** totaling approximately $ 6. ~~2~~ **9** billion related to MSG' s contracts, and this amount is likely to increase if the number of military bases served by MSG increases. The presence of these commitments may adversely affect our financial condition and make it more difficult for us to secure financing on attractive terms. MSG' s operations are subject to various risks associated with doing business with the U. S. government. MSG enters into contracts with the U. S. government for the operation and maintenance of water and wastewater systems, which contracts 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 either an annual economic price adjustment, or a **price** redetermination two years after commencement of operations and every three years thereafter. Annual economic price adjustment is an inflation index- based contract price increase mechanism. 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 annual economic price adjustment or price redetermination could adversely affect our financial condition, results of operations and cash flows. Moreover, entering into contracts with the U. S. government subjects us to a number of operational and compliance risks, including dependence on the level of government spending and compliance with and changes in governmental procurement and security regulations. We are subject to potential government investigations of our business practices and compliance with government procurement and security regulations, which are complex, and compliance with these regulations can be expensive and burdensome. If we were charged with wrongdoing as a result of an investigation, we could be suspended or debarred from bidding on or receiving awards of new contracts with the U. S. government or our existing contracts could be terminated, which could have a material adverse effect on our results of operations and cash flows. General Risk Factors New accounting standards or changes to existing accounting standards could materially impact how we report our results of operations, cash ~~flow~~ **flows** and financial condition. Our Consolidated Financial Statements are prepared in accordance with GAAP. The SEC, the Financial Accounting Standards Board or other authoritative bodies or governmental entities may issue new pronouncements or new interpretations of existing accounting standards that may require us to change our accounting policies or critical accounting estimates. These changes are beyond our control, can be difficult to predict and could materially impact how we report our results of operations, cash ~~flow~~ **flows** and financial condition. We could be required to apply a new or revised standard retroactively, which could also adversely affect our previously reported results of operations, cash ~~flow~~ **flows** and financial condition. Undetected errors in internal controls and information reporting could result in the disallowance of cost recovery and noncompliant disclosure. Our internal controls, accounting policies and practices and internal information systems are designed to enable us to capture and process transactions and information in a timely and accurate manner in compliance with GAAP, taxation requirements, federal securities laws and regulations and other laws and regulations applicable to us. We have also implemented corporate governance, internal control and accounting policies and procedures in connection with the Sarbanes- Oxley Act of 2002 (the " Sarbanes- Oxley Act ") and relevant SEC rules, as well as other applicable regulations. Such internal controls and policies have been and continue to be closely monitored by our management and Board of Directors to ensure continued compliance with these laws, rules and regulations. Management is also responsible for establishing and maintaining internal control over financial reporting and is required to assess annually the effectiveness of these controls. While we believe these controls, policies, practices and systems are adequate to verify data integrity, unanticipated or unauthorized actions of employees or temporary lapses in internal controls due to shortfalls in oversight or resource constraints could lead to undetected errors that could result in the disallowance of cost recovery and non-compliant disclosure and reporting. The consequences of these events could have a negative impact on our results of operations, cash flows and financial condition. The inability of management to certify as to the effectiveness of these controls due to the identification of one or more material weaknesses in these controls could also harm our reputation, increase financing costs or adversely affect our ability to access the capital markets. Our continued success is dependent upon our ability to **attract,** hire ~~,~~ **and** retain **highly** ~~and utilize~~ qualified ~~personnel~~ **, skilled and / or diverse talent** . The success of our business is dependent upon our ability to **attract,** hire ~~,~~ **and** retain **highly** ~~and utilize~~ qualified ~~personnel~~ **, skilled and / or diverse talent** , including engineers, licensed operators, water quality ~~and other operating and craft personnel,~~ and management professionals who have the ~~required~~ **desired** experience and expertise. **Similar** ~~From time~~ to ~~time, it may be difficult to attract and retain qualified individuals with the~~ **other organizations** ~~expertise and in the timeframe demanded for our business needs. In certain geographic areas~~ , ~~for example, we may not be able to satisfy~~ the **Company may** ~~demand for our services because of our inability to successfully hire and retain qualified personnel. In addition, as key personnel approach retirement age, we need to~~ have ~~appropriate~~ **challenges implementing its human capital management and employee** succession plans ~~in place and~~ to ~~successfully implement~~ **attract and retain** such ~~plans~~ **talent based on a number of factors including, among others, market conditions, retirements and geography** . If we **are unable to meet these human capital resource challenges** ~~cannot attract and retain qualified personnel or effectively implement appropriate succession plans~~ , our business, financial condition, results of operations and cash flows may be materially and adversely impacted **. Our business may be adversely affected by the intentional misconduct of our employees and contractors. Our Code of Ethics requires employees and contractors to make decisions ethically and in compliance with applicable law and regulatory requirements, and our Code of Ethics and its underlying policies, practices and procedures. All employees are required to complete training on and review the Code of Ethics on an annual basis, and violations of the Code of Ethics could result in disciplinary actions up to, and including, termination. Despite these efforts to prevent misconduct, it is possible for employees or contractors to engage in intentional misconduct and violate laws and regulations through, among other things, theft, fraud, misappropriation, bribery, corruption and engaging in conflicts of interest or related person transactions, or otherwise committing serious breaches of our Code of Ethics and our policies, practices and procedures. Intentional misconduct by employees or contractors could result in substantial liability, higher costs, increased regulatory scrutiny and significant reputational harm, any of which could have a material adverse effect on our financial condition, results of operations and cash flows** . ITEM 1B. UNRESOLVED STAFF COMMENTS None. ITEM 2. PROPERTIES