



# AMERICAN WATER

## Institutional Presentation

October 2011



# Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this presentation are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on our current expectations and assumptions regarding future events and may relate to, among other things, our future financial performance, including return on equity performance, our growth and portfolio optimization strategies, our projected capital expenditures and related funding requirements, our ability to repay debt, our ability to finance current operations and growth initiatives, the impact of legal proceedings and potential fines and penalties, business process and technology improvement initiatives, trends in our industry, regulatory or legal developments or rate adjustments. Actual results could differ materially because of factors such as decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates; changes in laws, governmental regulations and policies, including environmental, health and water quality and public utility regulations and policies; weather conditions, patterns or events, including drought or abnormally high rainfall; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; significant changes to our business processes and corresponding technology; our ability to appropriately maintain current infrastructure; our ability to obtain permits and other approvals for projects; changes in our capital requirements; our ability to control operating expenses and to achieve efficiencies in our operations; our ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our operations; our ability to successfully acquire and integrate water and wastewater systems that are complementary to our operations and the growth of our business or dispose of assets or lines of business that are not complementary to our operations and the growth of our business; cost overruns relating to improvements or the expansion of our operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase our cost and funding requirements; our ability to utilize our U.S. and state net operating loss carryforwards; migration of customers into or out of our service territories; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; the incurrence of impairment charges ability to retain and attract qualified employees; and civil disturbance, or terrorist threats or acts or public apprehension about future disturbances or terrorist threats or acts.

Any forward-looking statements we make, speak only as of the date of this presentation. Except as required by law, we specifically disclaim any undertaking or intention to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise.

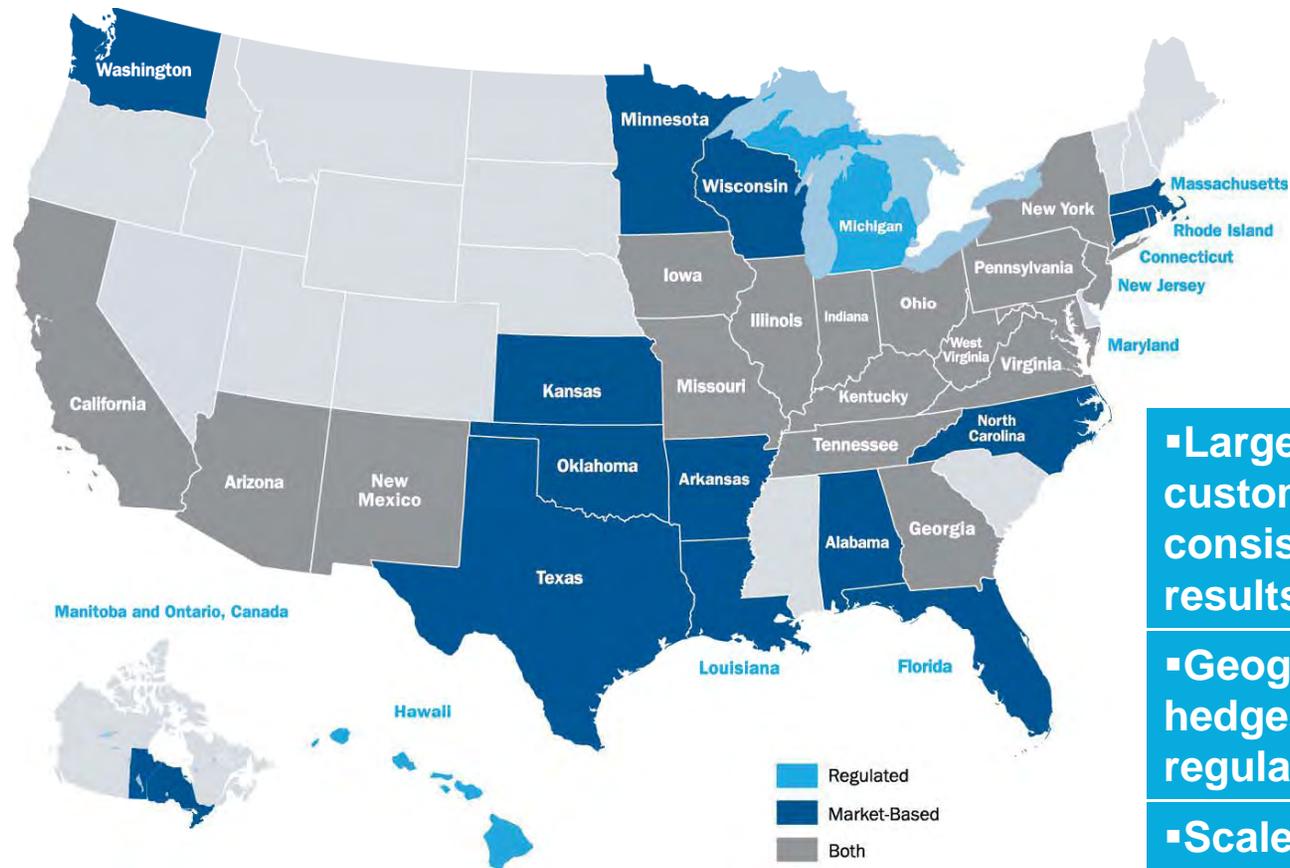
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# American Water's Value Proposition



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# American Water: The Premier Water Services Provider in North America



- Largely residential customer base promotes consistent operating results

- Geographic presence hedges both weather and regulatory risk

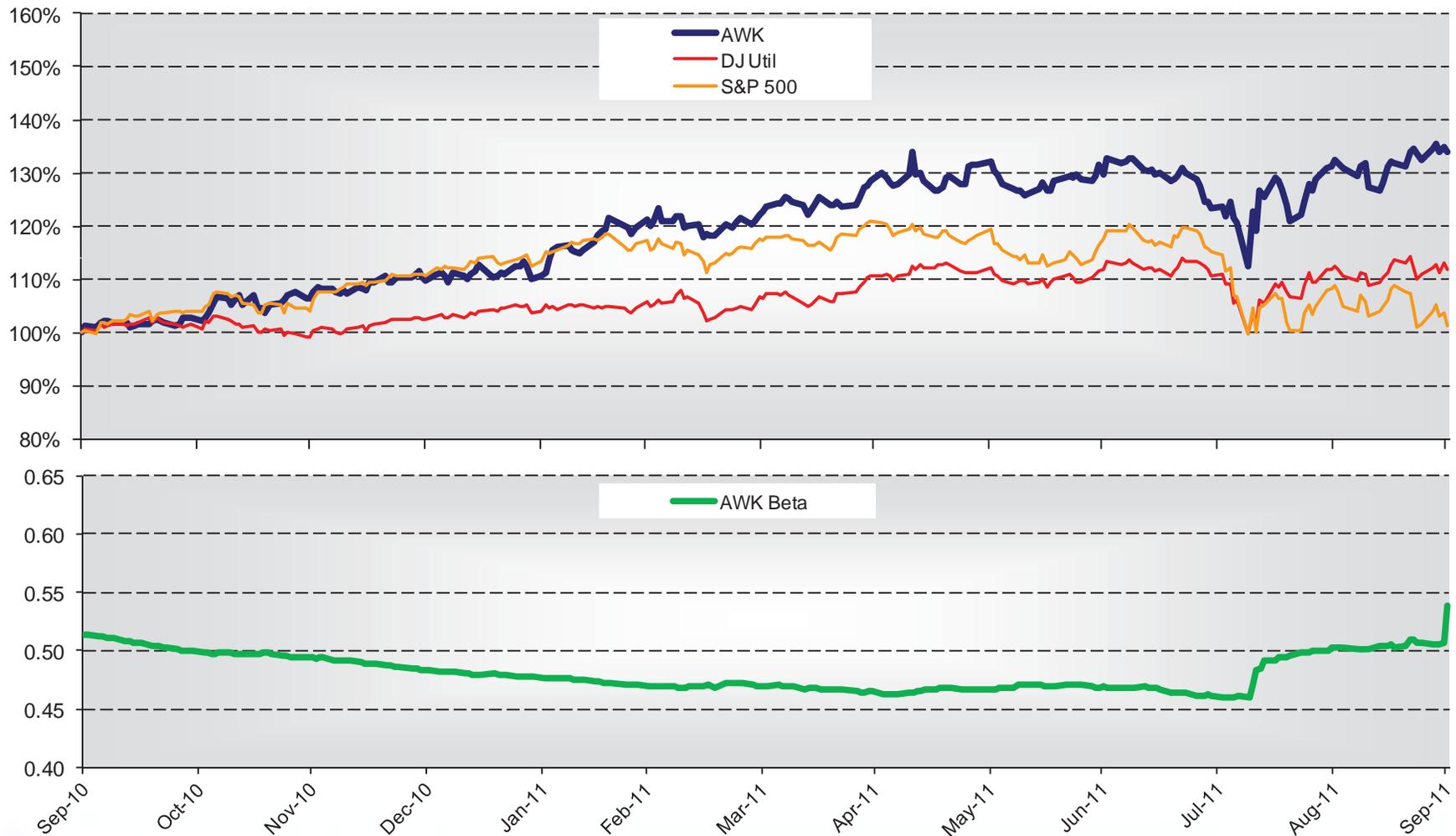
- Scale enables multiple growth opportunities across service areas

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# Total Shareholder Return : American Water vs. Indices

(September 30, 2010 – September 30, 2011)

| Shareholder Return LTM |        |
|------------------------|--------|
| American Water         | +34.1% |
| S&P 500                | +1.1%  |
| Dow Jones Utilities    | +11.7% |



Source: Thomson Reuters

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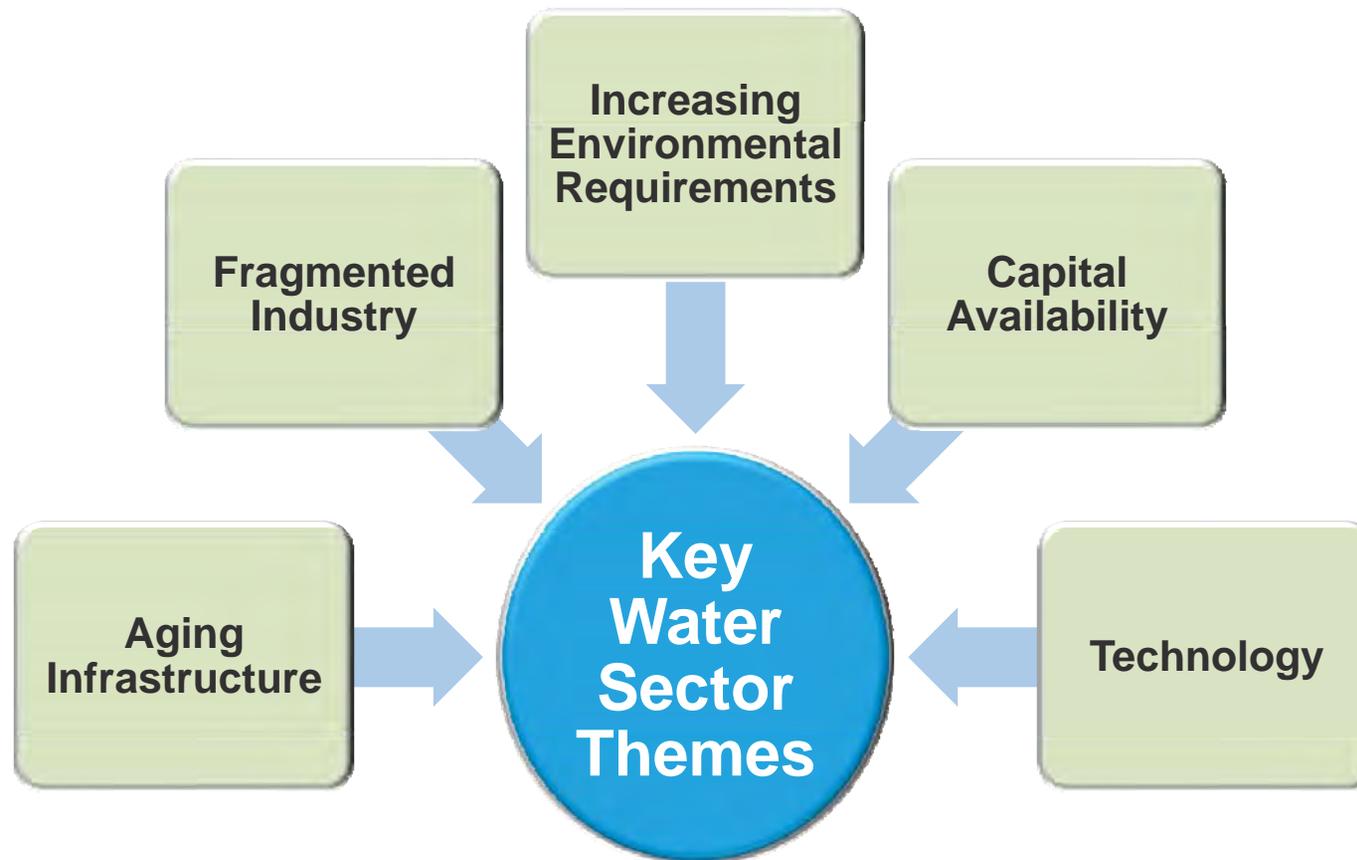


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## The US Water Industry

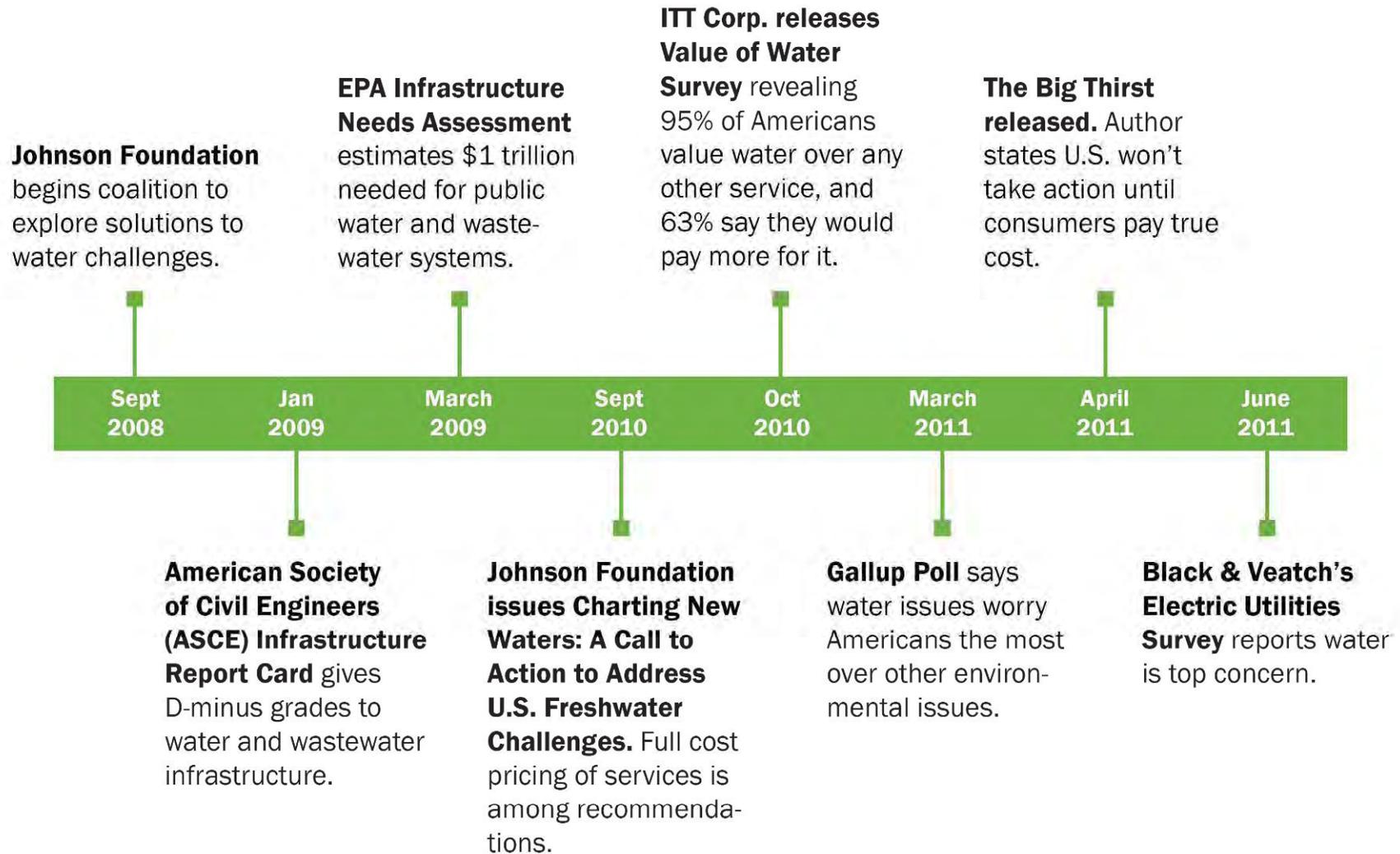


# The U.S. Water Industry



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# There is Increasing Public Awareness of Water and Wastewater Issues



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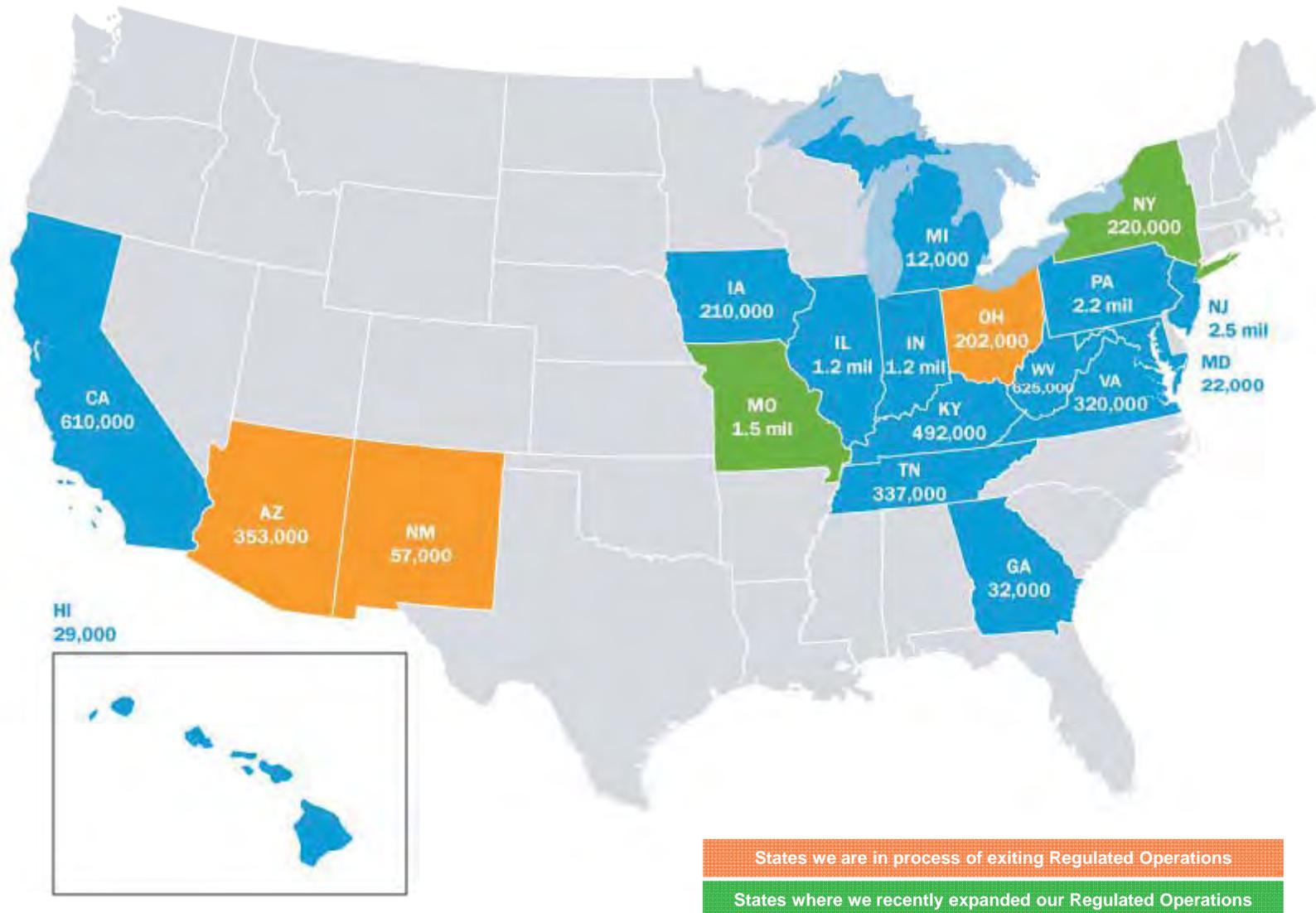


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American Water



# American Water's Regulated Presence



States we are in process of exiting Regulated Operations

States where we recently expanded our Regulated Operations

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## Continuing Effort to Earn an Appropriate Rate of Return on Prudent Investments



- As of August 26, 2011: \$314.6 million in annualized revenue requests from 9 outstanding rate cases
- In 2011 American Water received average ROE of 10.1%

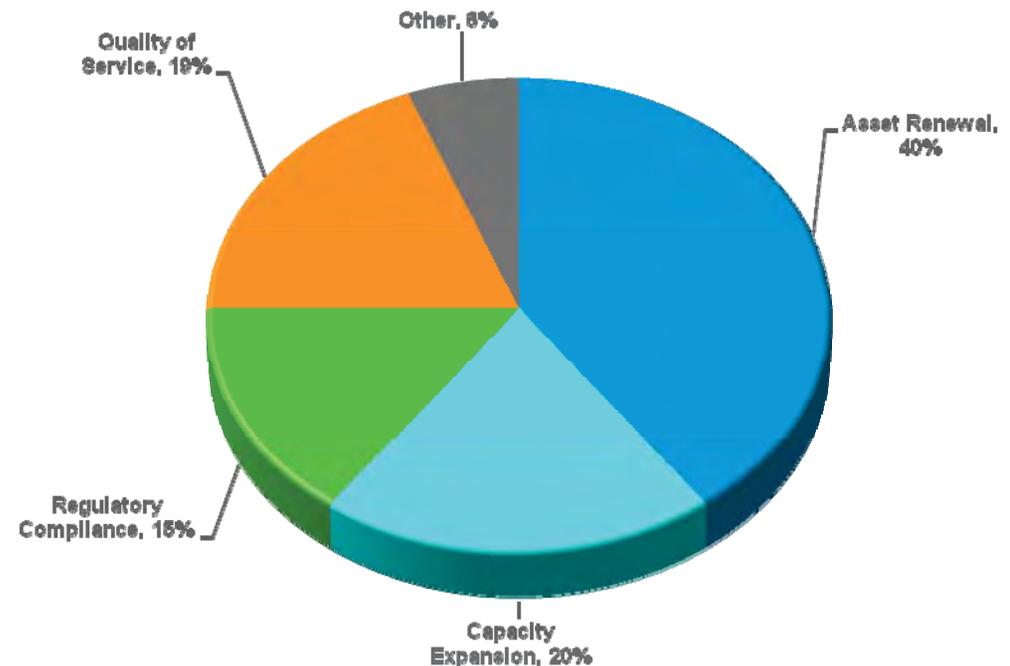
- 2010 Recovery Received includes \$1.5 million of additional annualized revenues in California associated with its Motion for reconsideration and rate base addition for cases finalized in 2009
- Recovery Received reflects final orders issued, and does not include Interim rate increases.

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# Regulated Operations Growth: Investing in Needed Infrastructure

- Ongoing Capital Expenditure program of \$800 million to \$1 billion per year
- Capital program focused on
  - Infrastructure replacement
  - Capacity projects
  - Source of supply needs
  - Acquisitions
  - Major projects
    - Pittsburgh, PA
    - Short Hills, NJ
    - Warsaw, IN
    - Hopewell, VA
    - Peoria, IL

## Capital Expenditure Framework



Net Capex<sup>(1)</sup> by category

(1) Net capex defined as gross capex less advances and contributions in aid of construction.

## American Water is Actively Addressing Regulatory Lag that Impact Returns on Investments

| Pending Rate Cases | Declining Usage | Decoupling | Distribution Surcharges | Balancing/ Trackers | Adjustment Clauses |
|--------------------|-----------------|------------|-------------------------|---------------------|--------------------|
| California         | •               | •          |                         | •                   | •                  |
| Iowa               | ✓               | ✓          | ✓                       |                     |                    |
| New York           |                 | •          | •                       | •                   | •                  |
| Pennsylvania       | ✓               |            | •                       |                     | ✓                  |
| Indiana            | ✓               |            | •                       |                     |                    |
| Missouri           | ✓               |            | •                       | •                   |                    |
| Ohio               | •               |            | •                       | •                   |                    |
| New Jersey         | •               | ✓          | ✓                       |                     | •                  |

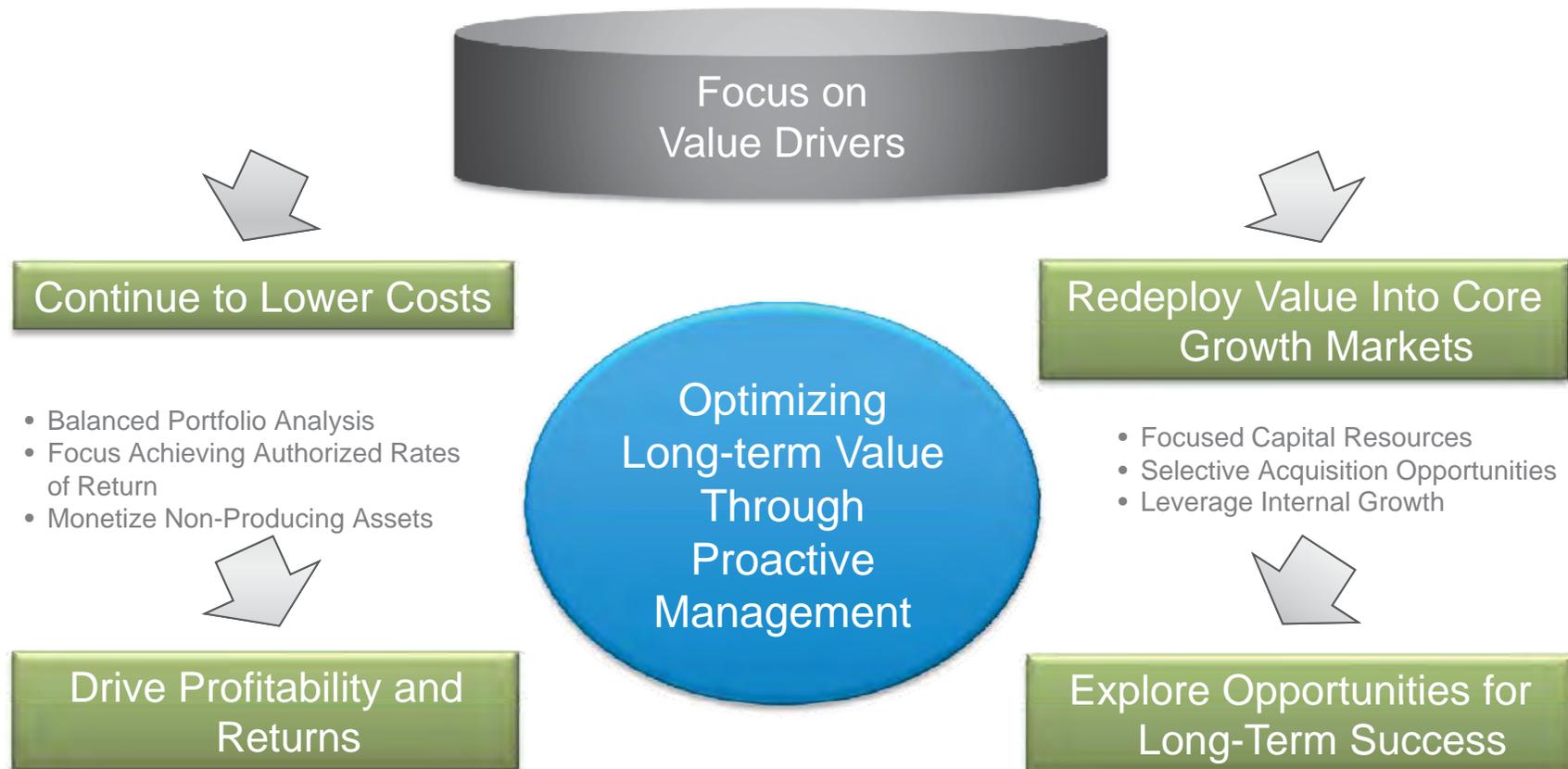
✓ = Recognition of regulatory lag in rate cases requested, but not yet obtained

• = Recognition of regulatory lag in rate cases that exist today

Note: Each of these tools is designed and applied differently in each state and subject to regulatory change

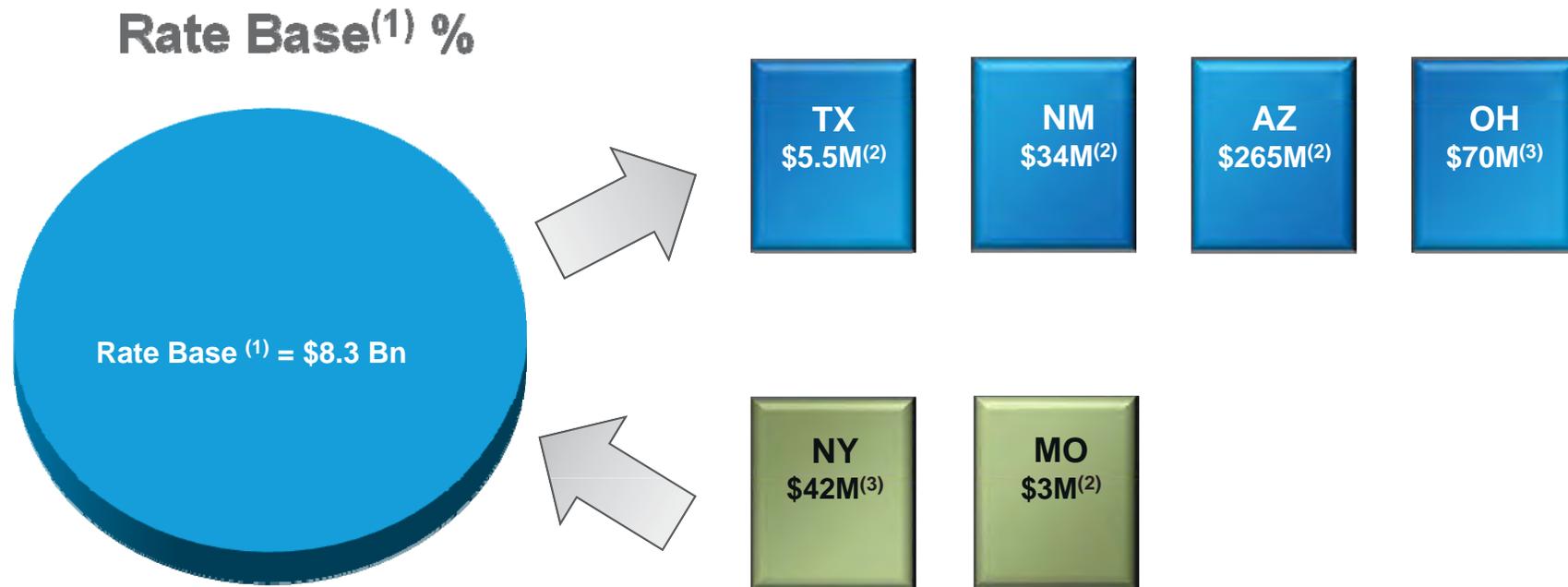
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# American Water's Portfolio Optimization Initiatives



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# Portfolio Optimization: Rate Base Inflows and Outflows



*(1) An approximation of rate base as of December 30, 2010, which includes Net Utility Plant not yet included in rate base pending rate case filings/outcomes*

*(2) Rate base approved in rate cases by respective commissions*

*(3) Most recent transactions (AZ, NM, OH and NY) subject to closing risk and regulatory approval*

**Proceeds of \$470 mm from New Mexico and Arizona transactions will be used to lower debt or finance Capital Expenditures**

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# American Water's Market-Based Operations Continue to Generate Opportunities for Growth

## Contract Operations

- Military Bases Privatization
  - Over \$2 Billion in Revenues Backlog
- Contract Operations
  - Over 200 contracts<sup>(1)</sup>
    - Serving 3.1 Million people
    - 25 industrial contracts
- Design, Build, Operate
  - 20 current projects<sup>(2)</sup>

## Homeowner Services

- Over 870,000 contracts
- 17 States



## Emerging Technologies

- Desalination plant
  - Tampa Bay Seawater, FL
- Water Reuse; 22 Projects; 7 States
  - Gillette Stadium, MA
  - Battery Park, NY
  - Butterball Turkey, NC

**Regulated-Like  
Complementary  
Value-Added  
Services**

(1) Includes 137 AWM and 48 EMC projects

(2) Includes 16 AWM projects

**For 2010, American Water reported \$311.8 million of Market-Based Operations revenues**

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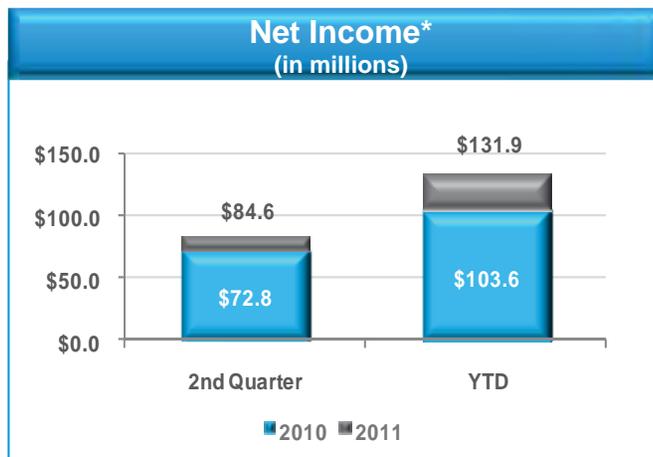


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## Financial Update



# American Water: Solid 2011 Results

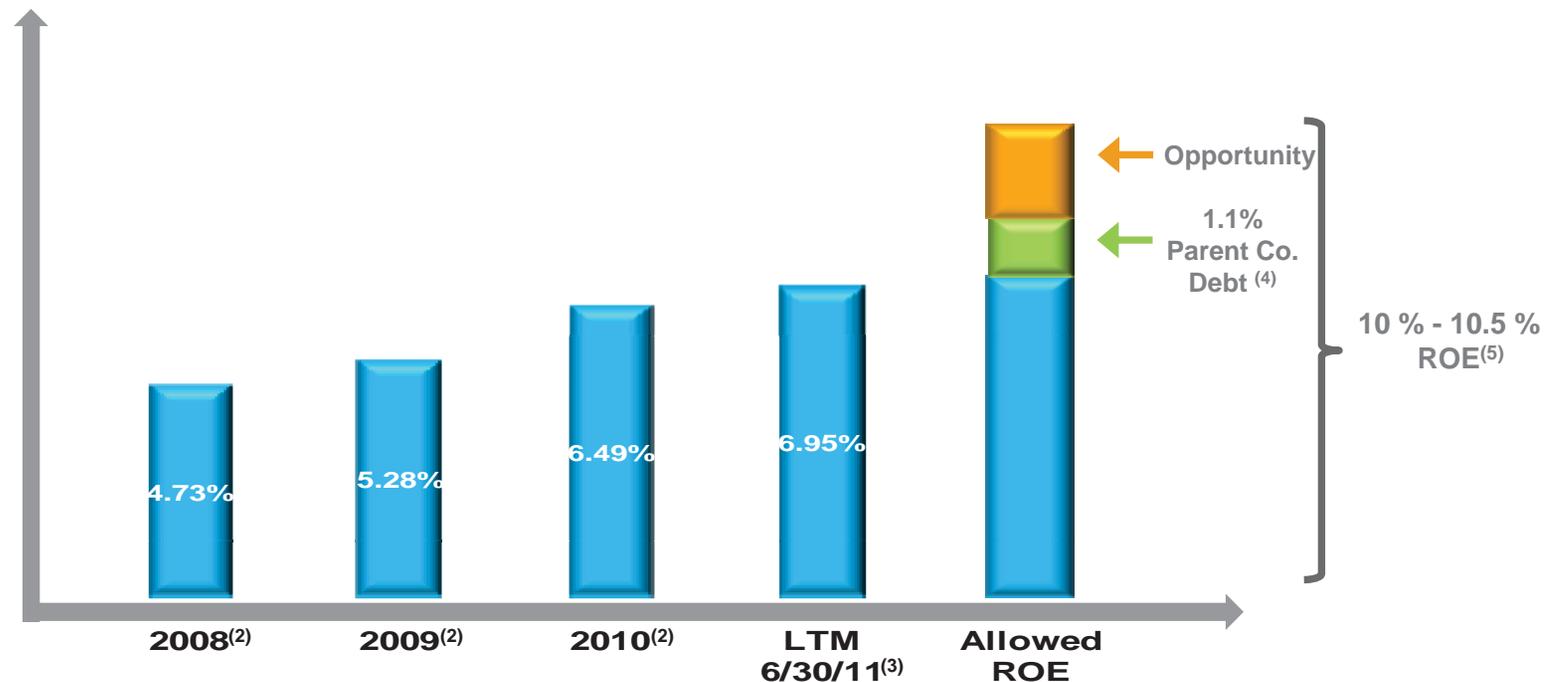


**Regulated O&M Efficiency Ratio improved 220 bps  
for the six months ended June 30, 2011\***

\*Net Income and EPS include the cessation of depreciation that favorably affected net income by \$3.2 million after tax, or \$0.02 per share and \$7.9 million after tax and \$0.04 per share for the three and six months ended June 30, 2011, respectively, on assets under agreement for sale.

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## American Water Continues to Improve Return on Equity<sup>(1)</sup> to Shareholders

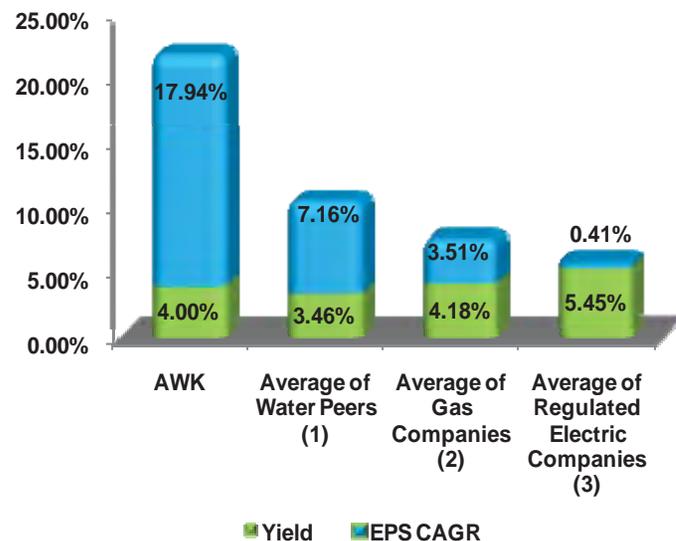


1. ROE calculation excludes impairment, SOX, divestiture and other
2. 2008, 2009 and 2010 reflect net income as there was no discontinued operations in these periods
3. 2011 is adjusted for cessation of depreciation associated with assets of discontinued operations
4. Parent company debt as of June 30, 2011
5. Range of allowed ROE

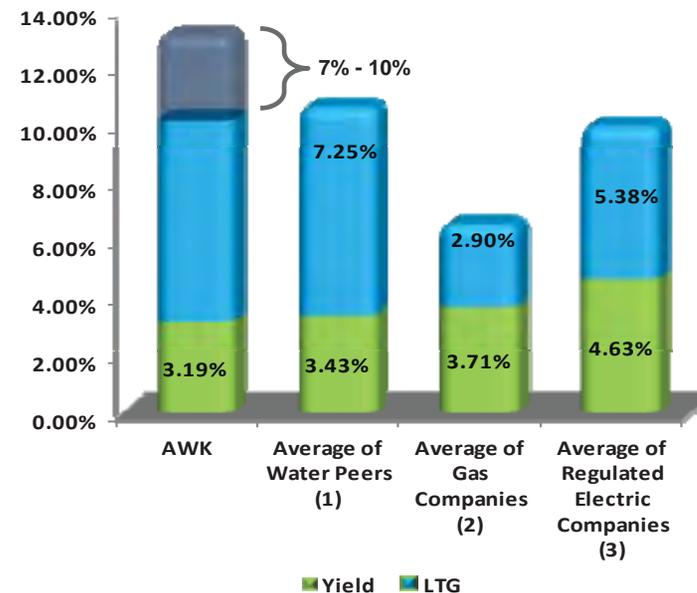
**American Water continues to close ROE Gap**

# American Water's Past Performance and Future Growth Expectations Compare Very Favorably vs Water, Electric and Gas Peers

2008 – 2010  
EPS CAGR + Average Dividend Yield (4)



Total Shareholder Return  
(Long Term Expected EPS Growth\* and Dividend Yield\*\*)



- 1) Water Companies Include: AWR, CTWS, CWT, MSEX, SJW, WTR, YORW.
- 2) Gas Companies include ATO, LG, GAS, NWN, PNY, SJI, SWX, WGL.
- 3) Regulated Electric Companies include HE, NU, TE, LNT, XEL, SO, CNP, PCG, SCG, POR, DUK, UIL, PGN, AEP.
- 4) Average monthly dividend yield for 2008 – 2010 period.
- 5) Non GAAP: American Water EPS adjusted to exclude impairment charges.

Source: Thomson Reuters

\* For AWK represents 7-10% Long Term EPS CAGR market guidance. All other data from First Call Consensus Estimates

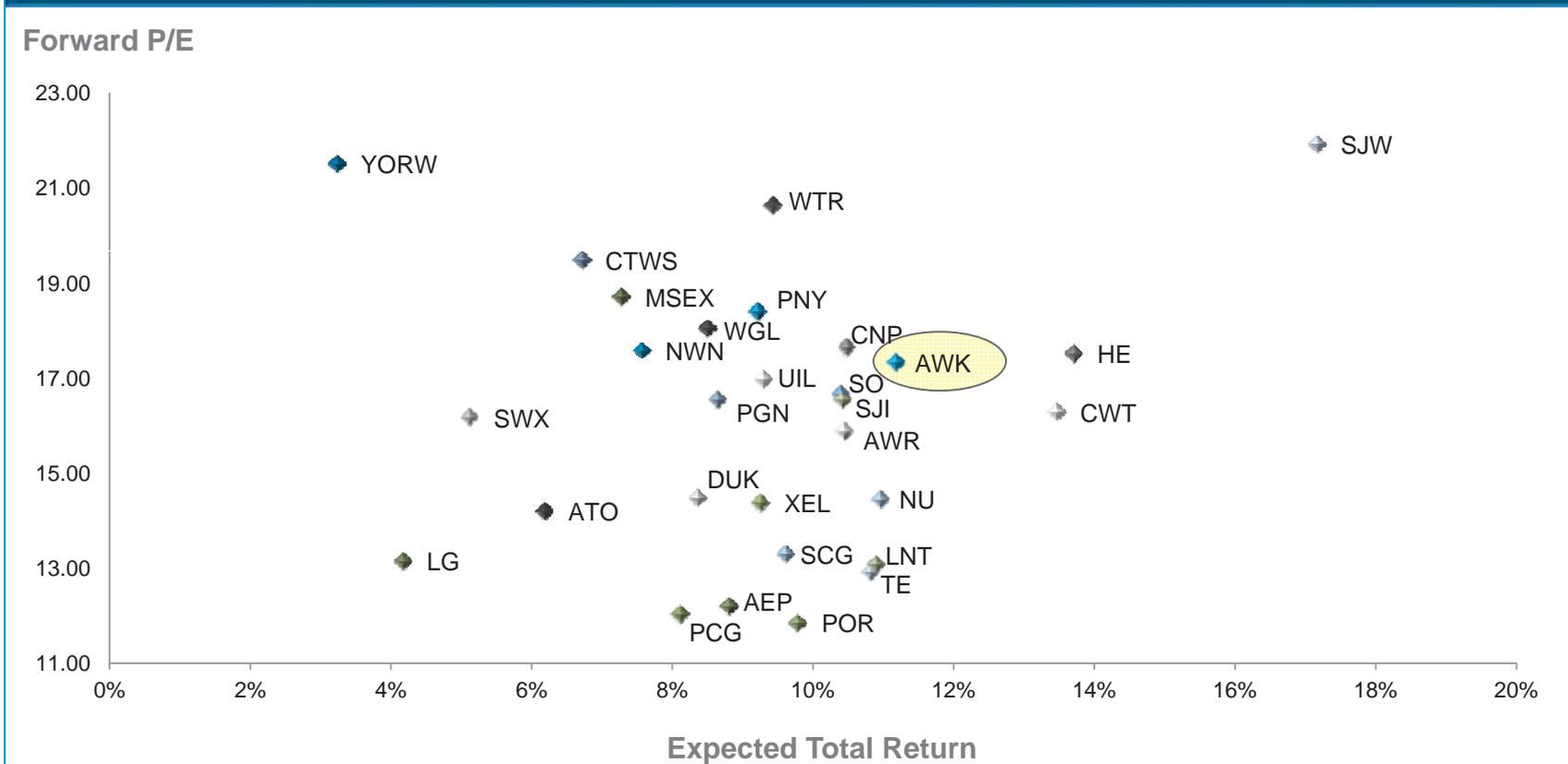
\*\* as of 9/30/11

Note: Consensus Estimates are calculated by First Call based on the earnings projections made by the analysts who cover companies noted (other than AWK). Please note that any opinions, estimates or forecasts regarding performance made by these analysts (and therefore the Consensus estimate numbers) are theirs alone and do not represent opinions, forecasts or predictions of American Water or its management.

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# American Water's Higher Growth Expectations are not Fully Reflected in its PE Multiple

## P/E Compared with Total Return



Source: Thomson Reuters

\* PE data as of September 2011

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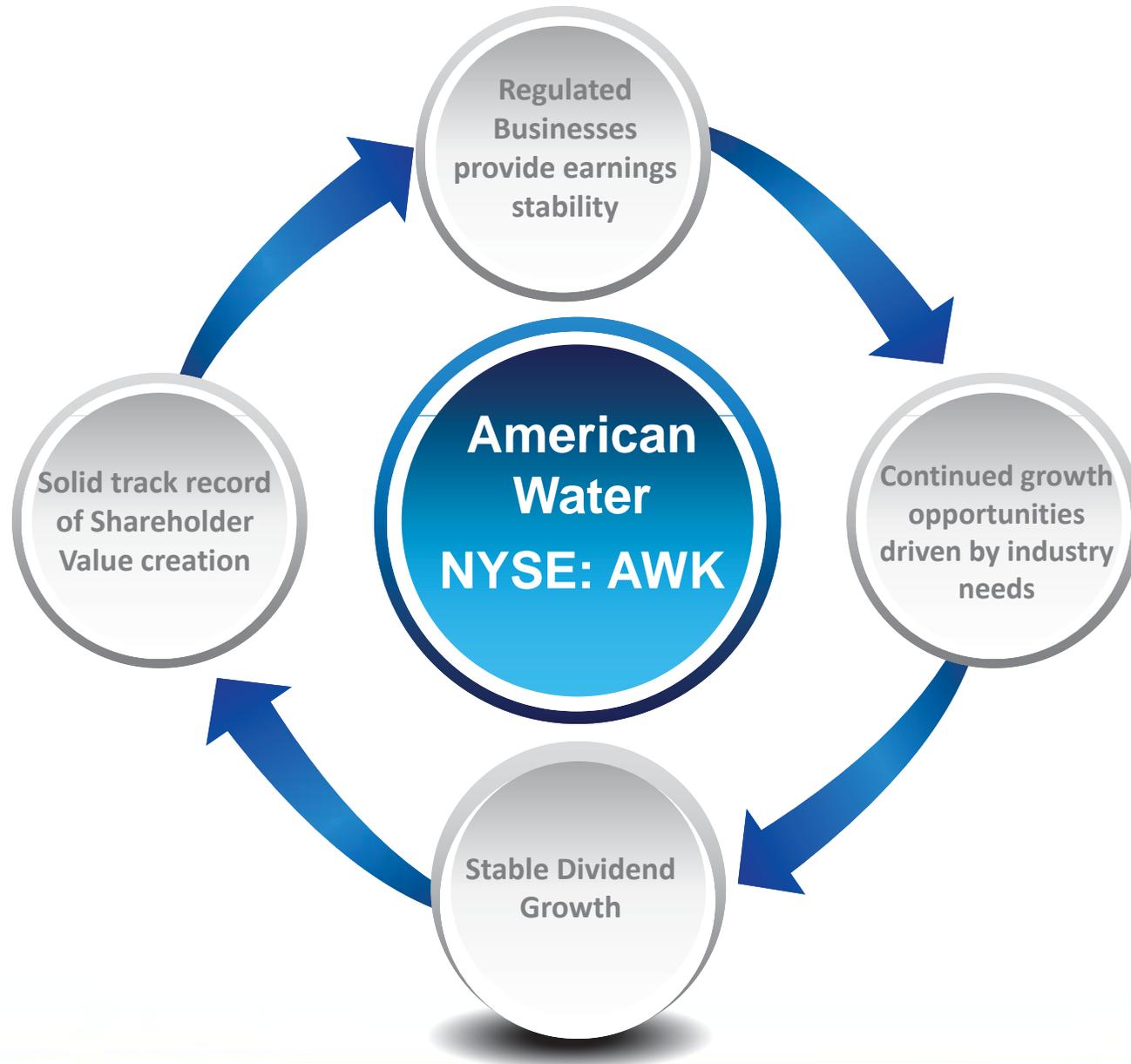
## Recent Dividend History

- Key component of American Water's total shareholder return proposition
- Dividend Growth – Board of Directors increased dividend 5% to \$0.23 or \$0.92 annualized
- Dividend Yield – 3.05% at 9/30/11
- Growth in Dividend reflects growth in Net Income



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# American Water's Value Proposition



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

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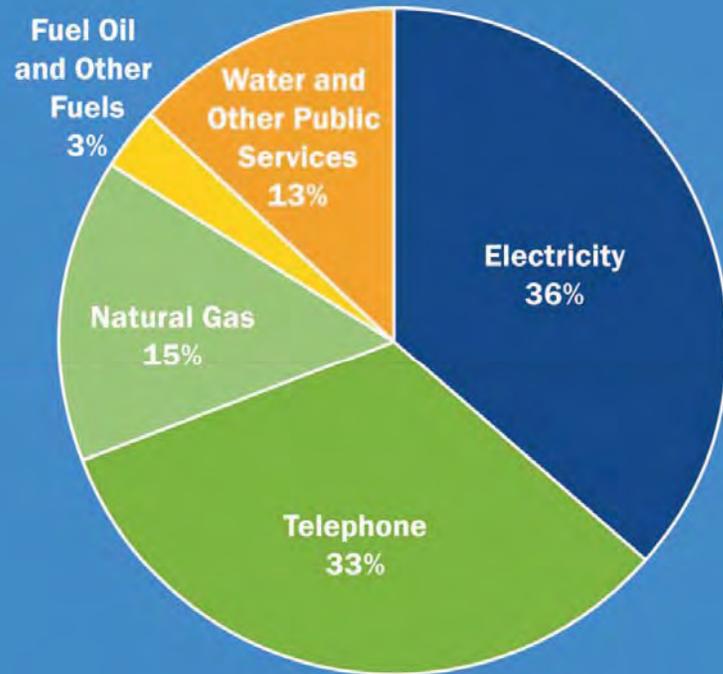
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## Appendix



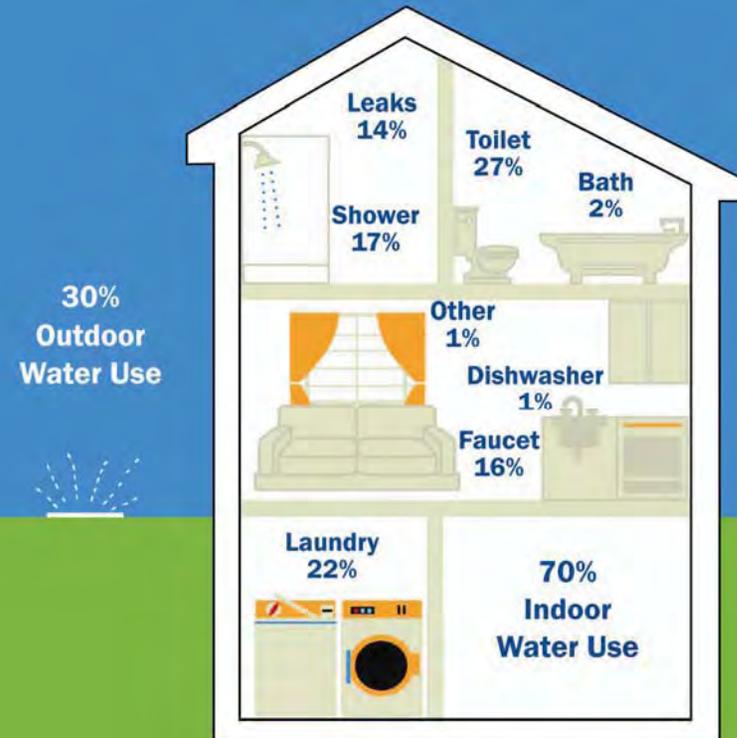
# Water Utility Expenditures

## Water vs Other Utility Expenditures



Source: Bureau of Labor Statistics, CES  
Based on the average four-person household in 2007.

## Water Use in the Home



Source: American Water Works Association

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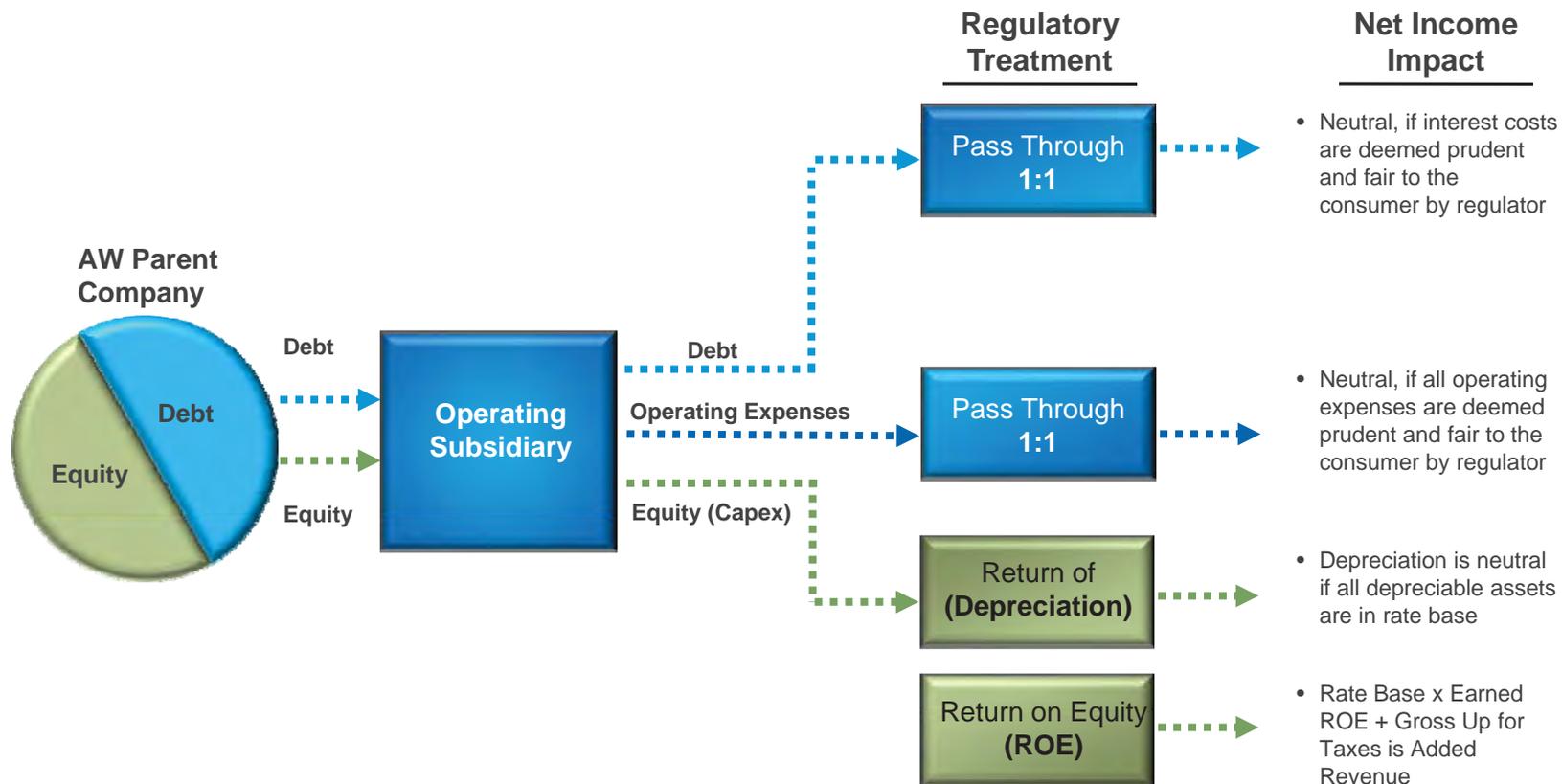
# Rate of Return Regulation in the United States

Prudent Investment Drives Need for Rate Cases



American Water has experience in securing appropriate rates of return and promoting constructive regulatory frameworks

# How is Net Income Generated in Rate of Return Regulation?



If all assets are included in the Company's Rate Base and all operating expenses are deemed prudent and recoverable by regulator, Company earns allowed ROE\*

\* Assuming no regulatory lag between rate cases

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# Rate Cases Awaiting Final Order

## General Rate Cases Awaiting Final Order (as of September 2011)

|              | Docket /<br>Case Number | Date Filed | Annualized Revenue<br>Increase Filed | ROE<br>Requested | Rate Base<br>(Filed) | Filing<br>Status |
|--------------|-------------------------|------------|--------------------------------------|------------------|----------------------|------------------|
| California   | A 10-07-007             | 07/01/10   | 37.3                                 | 10.20%           | 409.6                | 3                |
| Arizona      | W-01303A-10-0448        | 11/03/10   | 20.4                                 | 11.50%           | 149.2                | 2                |
| Hawaii       | 2010-0313               | 02/22/11   | 1.8                                  | 11.85%           | 25.2                 | 3                |
| Pennsylvania | R-2011-2232243          | 04/29/11   | 70.7                                 | 11.50%           | 2,096.2              | 2                |
| New York     | 11-W-0200               | 04/29/11   | 9.6                                  | 11.50%           | 126.9                | 2                |
| Iowa         | RPU-2011-0001           | 04/29/11   | 5.1                                  | 11.35%           | 88.9                 | 5                |
| Indiana      | 44022                   | 05/02/11   | 20.4                                 | 11.50%           | 733.4                | 2                |
| New Mexico   | 11-00196-UT             | 05/18/11   | 2.6                                  | 11.75%           | 33.6                 | 2                |
| Missouri     | WR-2011-0037            | 06/30/11   | 42.9                                 | 11.50%           | 849.1                | 2                |
| Ohio         | 11-4161-WS-AIR          | 07/01/11   | 8.3                                  | 11.50%           | 92.3                 | 1                |
| New Jersey   | WR11070460              | 07/29/11   | 95.5                                 | 11.50%           | 2,059.7              | 1                |
| Total        |                         |            | \$ 314.6                             |                  | \$ 6,664.1           |                  |

Note: Above excludes rate case file in 2007 for Hawaii for which interim rates have been in effect since October 2008

### Index of Rate Case Status

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

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## Rate Cases and Infrastructure Charges Awarded That Will Have an Impact on 2011 Results *(As of September 2011)*

| (\$ in millions)   | <u>Effective Date<br/>for new rates</u> | <u>ROE<br/>Granted</u> | <u>Annualized<br/>Increase to<br/>Revenue</u> |
|--|---|------------------------|---|
| <i>General Rate Cases:</i>   |   |                        |   |
| Illinois   | 4/23/2010                               | 10.38%                 | \$ 41.4                                       |
| New Mexico (Edgewood) **   | 5/10/2010                               | 10.00%                 | 0.5   |
| Indiana  | 5/3/2010                                | 10.00%                 | 31.5  |
| Virginia (Eastern)   | 5/8/2010                                | 10.50%                 | 0.6   |
| Ohio **  | 5/19/2010                               | 9.34%                  | 2.6   |
| Missouri   | 7/1/2010                                | 10.00%                 | 28.0  |
| California (Sac, LA, Lark)   | 7/1/2010                                | 10.20%                 | 14.6  |
| Michigan   | 7/1/2010                                | 10.50%                 | 0.2   |
| Kentucky   | 10/1/2010                               | 9.70%                  | 18.8  |
| New Jersey   | 1/1/2011                                | 10.30%                 | 39.9  |
| Pennsylvania Wastewater  | 1/1/2011                                | 10.60%                 | 8.4   |
| Arizona **   | 1/1/2011                                | 9.50%                  | 14.7  |
| Tennessee  | 4/5/2011                                | 10.00%                 | 5.6   |
| West Virginia  | 4/19/2011                               | 9.75%                  | 5.1   |
| Virginia   | 4/6/2011*                               | 10.20%                 | 4.8 *   |
| <i>Subtotal - General Rate Cases</i>   |   |                        | <u>\$ 216.7</u>                               |
| <i>Infrastructure Charges:</i>   |   |                        |   |
| Pennsylvania   |   |                        | 19.3  |
| Indiana  |   |                        | 5.4   |
| Missouri   |   |                        | 6.3   |
| Illinois   |   |                        | 1.7   |
| Other  |   |                        | 1.6   |
| <i>Subtotal - Infrastructure Charges</i>   |   |                        | <u>\$ 34.3</u>                                |
| <i>Total</i>   |   |                        | <u><u>\$ 251.0</u></u>                        |
| * Includes non-jurisdictional components of approximately \$0.5 million. The effective dates are specific to the customers and were either August 2010 or January 1, 2011. |   |                        |   |
| ** In process of being sold  |   |                        |   |

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# American Water Continues to Educate Consumers about Needed Infrastructure Investments

- Open houses/tours
- Speaking forums
- News releases/op-eds
- Media pitching
- Bill inserts
- Flyers
- Advertising
- Community events
- Public official meetings
- White papers

**The Value of Water Service**

How much do you pay?  
If you had to guess, what does the average Pennsylvania American Water customer pay for one gallon of tap water delivered to their home?

- One dollar or more
- 50 cents to one dollar
- 2 cents to 50 cents
- About a penny

See answer on back.

**Correct Answer:**

**About a penny**

That's right! Pennsylvania American Water customers pay about a penny per gallon for their tap water.

**The value of water service is unbeatable.**

What else can you have delivered directly to your home or business 24 hours a day, 365 days per year at that price? Think about it. We use water everyday at home for drinking, cooking and cleaning. And, it is essential in our communities for agriculture, fire fighting, health services and economic development.

From our certified plant operators and water quality specialists to our engineers and dedicated distribution crews, our team of experts is committed to providing high-quality, reliable service that meets all state and federal drinking water standards.

**WE ARE INVESTED IN PENNSYLVANIA**  
Millions invested, yet water costs about a penny per gallon!

In 2010, Pennsylvania American Water invested more than \$200 million in our treatment and distribution facilities statewide. At the same time, a gallon of our tap water costs about a penny per gallon. That's an exceptional value.

To learn more, visit [www.pennsylvaniaamwater.com](http://www.pennsylvaniaamwater.com).

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

**PENNSYLVANIA AMERICAN WATER**

**A Gallon of High-Quality Water Delivered to Your Home for Less Than a Penny**

Tennessee American Water and our employees are focused on delivering high-quality water and reliable service.

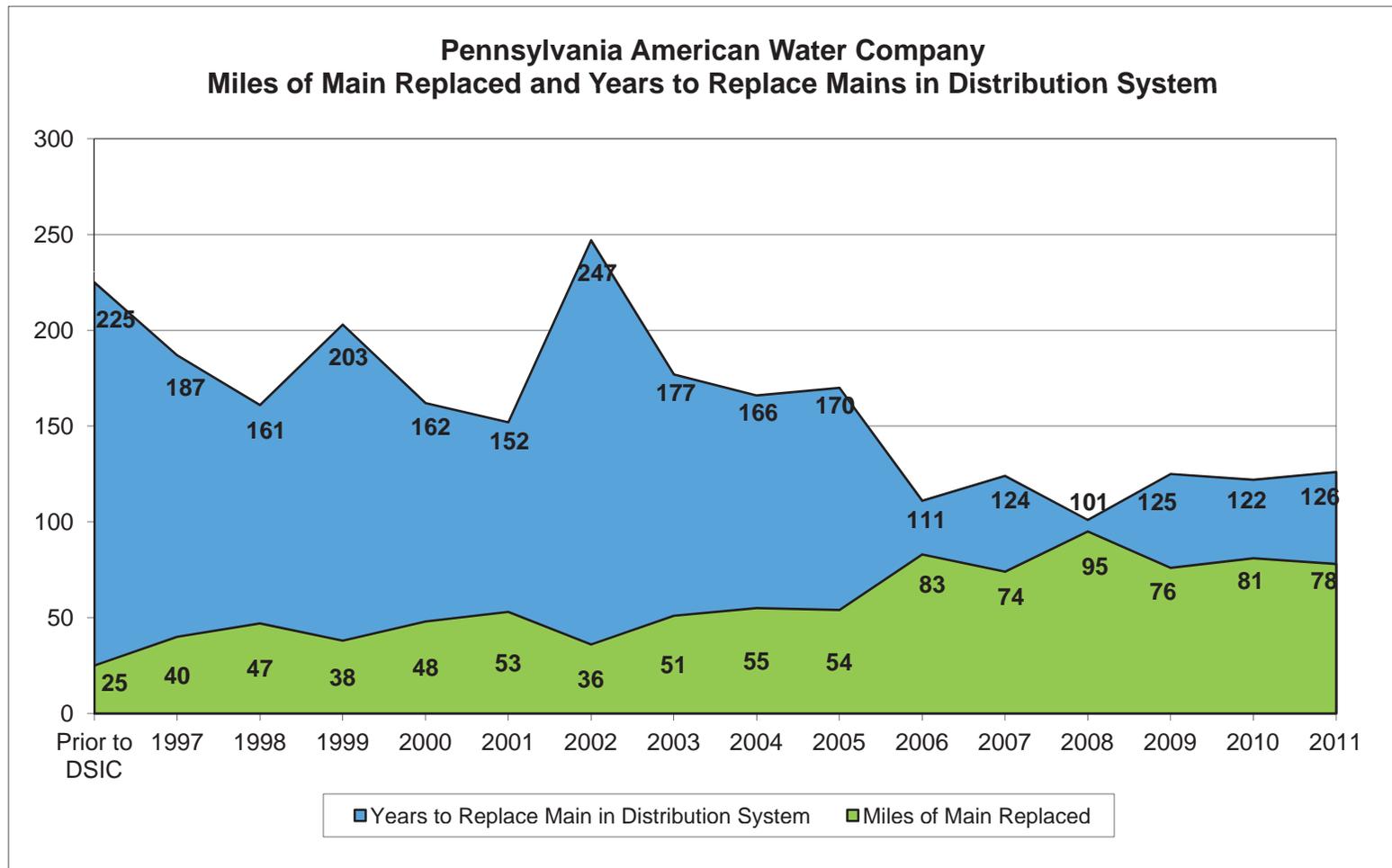
**Tennessee American Water**

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## Infrastructure Surcharges: A Viable Mechanism to Address Regulatory Lag

- Infrastructure Surcharges allow companies to recover infrastructure replacement costs without necessity of filing full rate proceeding
- States that currently allow use of infrastructure surcharges
  - Pennsylvania
  - Indiana
  - Illinois
  - Ohio
  - Delaware
  - New York
  - Missouri (St Louis County)
  - California - Trial basis
- Surcharges are typically reset to zero when new base rates become effective and incorporate the costs of the previous surcharge investments

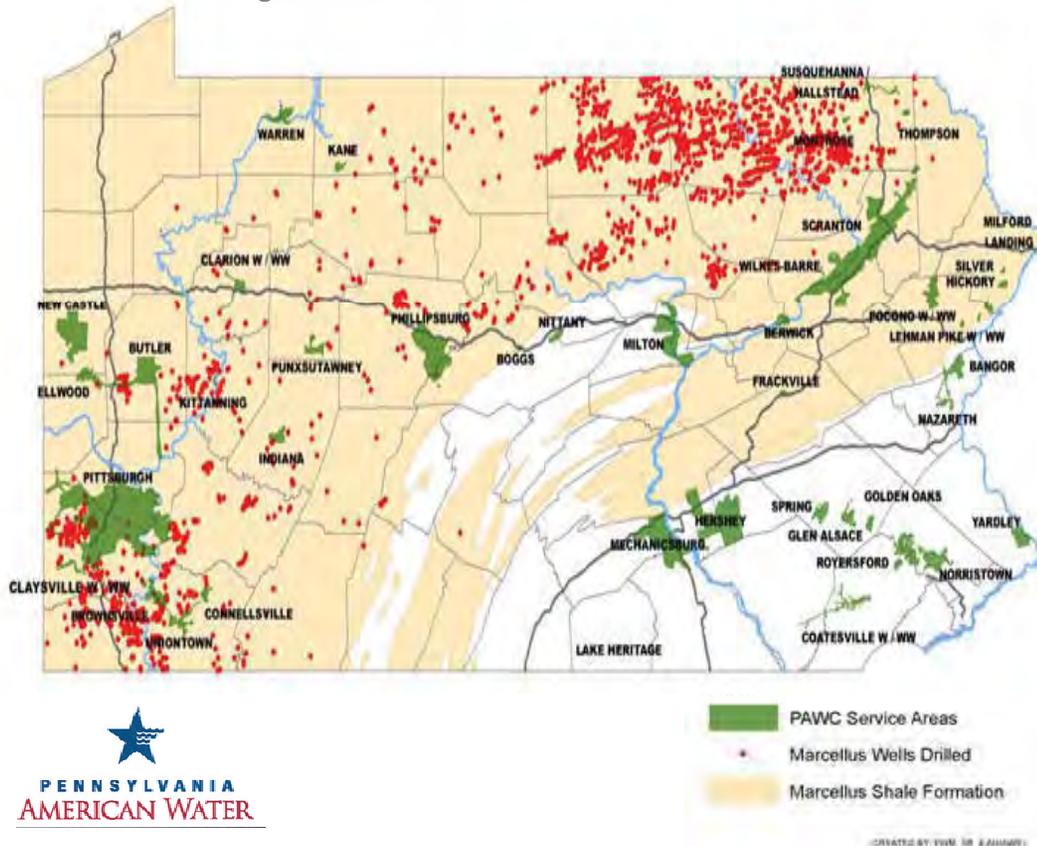
# Case in Point: Increased Investment in Pennsylvania's Infrastructure



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# Marcellus Shale: Possible Opportunities for Growth

Pennsylvania American Water Service Areas with DEP Bureau oil and gas Marcellus Shale wells drilled between 2008-2011



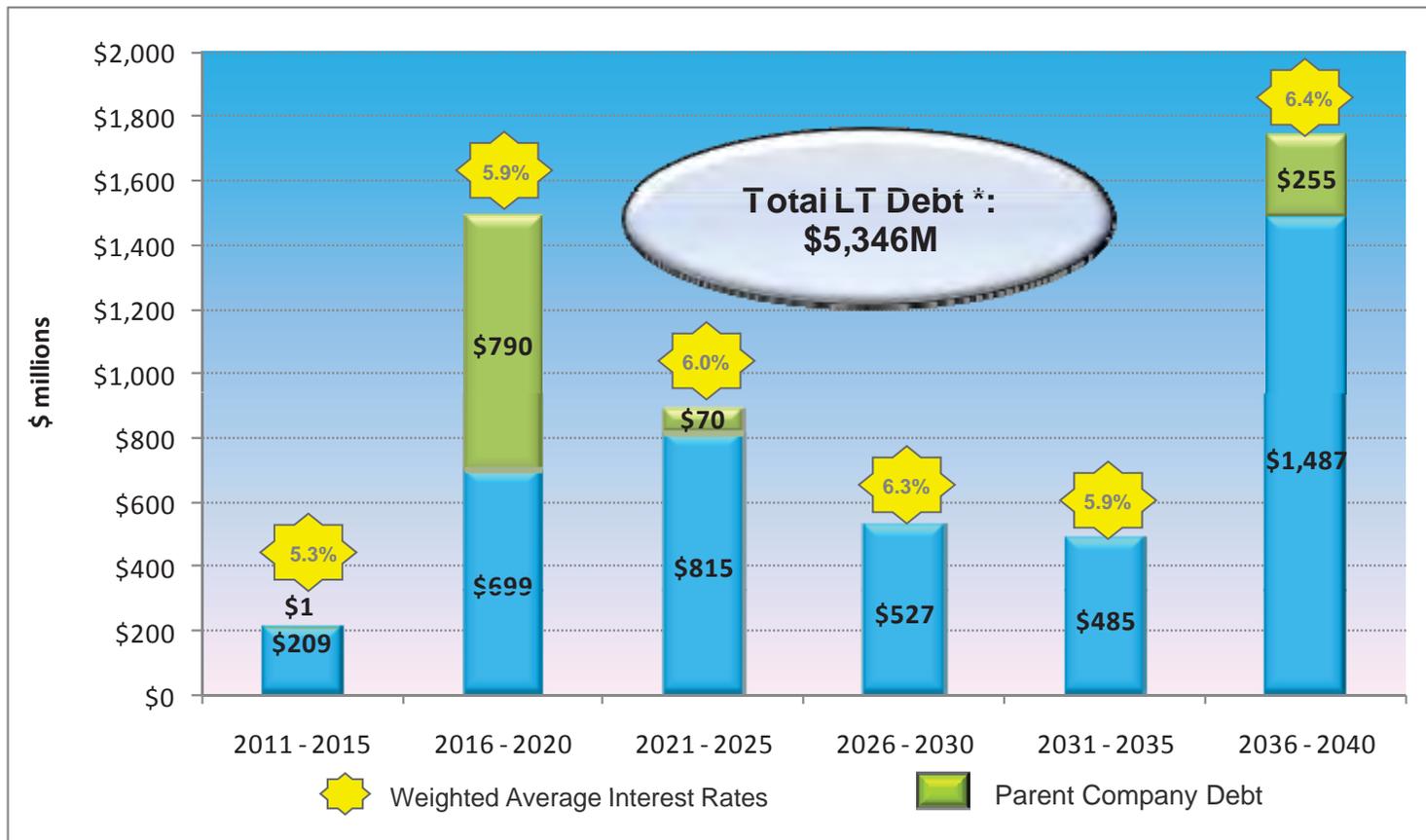
- Marcellus Shale formation covers 2/3 of Pennsylvania
- 363 trillion cubic feet of natural gas is estimated to be captured in Pennsylvania's shale formation
- Many of the 390 communities that we serve are in areas where drilling is taking place
- PAW is currently selling water to gas drillers at 29 distribution points in Pennsylvania, primarily in Western PA and some in Northeast PA
- PAW sold 115.3 million gallons of water to gas drillers from January through June of 2011, producing \$702,000 in revenues
- 3,792 Marcellus Shale wells drilled from 2008 to July 2011

Realizing additional revenues from water sales to drilling companies while remaining vigilant in protecting our water sources

Information Source: 8/26/11 [http://www.dep.state.pa.us/dep/deputate/minres/oilgas/new\\_forms/marcellus/marcellus.htm](http://www.dep.state.pa.us/dep/deputate/minres/oilgas/new_forms/marcellus/marcellus.htm)

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# Debt Maturities (as of 6/30/2011)



\* Excludes Preferred Stock with Mandatory Redemptions and Capital Leases

**\$100 million of Parent Company debt swapped from 6.085% to 6 month LIBOR + 3.422%**

## Financial Tables: GAAP and Non-GAAP Measures, Rate Base

| Net Income (Loss) – Earnings per Share<br>Excluding Impairment Charge<br>(A Non-GAAP Unaudited Number)* | Historical                      |                  |                  |
|---|---------------------------------|------------------|------------------|
|   | For the Year Ended December 31, |                  |                  |
| (\$ in thousands, except per share data)  | 2008                            | 2009             | 2010             |
| Net income (Loss)   | (\$562,421)                     | (\$233,083)      | \$267,827        |
| Add: Impairment   | 750,000                         | 450,000          | 0                |
| Net income excluding impairment charge before associated tax benefit                                    | 187,579                         | 216,917          | 267,827          |
| Less: Income tax benefit relating to impairment charge  | 11,525                          | 6,976            | 0                |
| <b>Net income excluding impairment charge</b>   | <b>\$176,054</b>                | <b>\$209,941</b> | <b>\$267,827</b> |
| Basic earnings per common share excluding impairment charge:  |                                 |                  |                  |
| <b>Net income excluding impairment charge</b>   | <b>\$1.10</b>                   | <b>\$1.25</b>    | <b>\$1.53</b>    |
| Diluted earnings per common share excluding impairment charge:  |                                 |                  |                  |
| <b>Net income excluding impairment charge</b>   | <b>\$1.10</b>                   | <b>\$1.25</b>    | <b>\$1.53</b>    |

| Rate Base as of June 30, 2011 <sup>(1)</sup> |   |                    |
|--|---|--------------------|
| (\$ in Thousands)                            |   |                    |
| Net Utility Plant                            |   | \$10,463,211       |
| Less   |   |                    |
|  | Advances for Construction                   | 396,440            |
|  | CIAC – Contributions in Aid of Construction | 940,819            |
|  | Deferred income taxes                       | 1,163,854          |
|  | Deferred investment tax credits             | 30,198             |
|  | Sub Total                                   | \$2,531,311        |
| <b>Rate Base</b>                             | <b>TOTAL</b>                                | <b>\$7,931,900</b> |

(1) An approximation of rate base, which includes Net Utility Plant not yet included in rate base pending rate case filings/outcomes

\*A Non-GAAP number, excluding net impairment charges for 2009 and 2008 of \$(443,024) and \$(738,475), respectively.

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# Income Statement

|   | Three Months Ended<br>June 30, |                  | Six Months Ended<br>June 30, |                   |
|---|--------------------------------|------------------|------------------------------|-------------------|
|   | 2011                           | 2010             | 2011                         | 2010              |
| Operating revenues                                    | \$ 674,248                     | \$ 634,910       | \$ 1,276,070                 | \$ 1,192,930      |
| Operating expenses                                    |                                |                  |                              |                   |
| Operation and maintenance                             | 332,310                        | 314,016          | 647,677                      | 614,599           |
| Depreciation and amortization                         | 87,654                         | 81,695           | 174,603                      | 162,754           |
| General taxes   | 53,096                         | 50,889           | 108,815                      | 103,743           |
| Loss (gain) on sale of assets                         | 28                             | 26               | 296                          | (45)              |
| Total operating expenses, net                         | 473,088                        | 446,626          | 931,391                      | 881,051           |
| Operating income                                      | 201,160                        | 188,284          | 344,679                      | 311,879           |
| Other income (expenses)                               |                                |                  |                              |                   |
| Interest, net   | (78,504)                       | (78,444)         | (154,724)                    | (156,888)         |
| Allowance for other funds used during construction    | 2,535                          | 2,305            | 5,363                        | 4,414             |
| Allowance for borrowed funds used during construction | 1,198                          | 1,194            | 2,402                        | 2,547             |
| Amortization of debt expense                          | (1,255)                        | (735)            | (2,547)                      | (1,927)           |
| Other, net  | 679                            | 1,987            | (475)                        | 2,059             |
| Total other income (expenses)                         | (75,347)                       | (73,693)         | (149,981)                    | (149,795)         |
| Income from continuing operations before income taxes | 125,813                        | 114,591          | 194,698                      | 162,084           |
| Provision for income taxes                            | 51,160                         | 46,570           | 79,315                       | 64,880            |
| Income from continuing operations                     | 74,653                         | 68,021           | 115,383                      | 97,204            |
| Income from discontinued operations, net of tax       | 9,913                          | 4,730            | 16,515                       | 6,355             |
| <b>Net income</b>                                     | <b>\$ 84,566</b>               | <b>\$ 72,751</b> | <b>\$ 131,898</b>            | <b>\$ 103,559</b> |
| Basic earnings per common share: (a)                  |                                |                  |                              |                   |
| Income from continuing operations                     | \$ 0.43                        | \$ 0.39          | \$ 0.66                      | \$ 0.56           |
| Income from discontinued operations, net of tax       | \$ 0.06                        | 0.03             | \$ 0.09                      | 0.04              |
| Net income  | \$ 0.48                        | \$ 0.42          | \$ 0.75                      | \$ 0.59           |
| Diluted earnings per common share: (a)                |                                |                  |                              |                   |
| Income from continuing operations                     | \$ 0.42                        | \$ 0.39          | \$ 0.65                      | \$ 0.56           |
| Income from discontinued operations, net of tax       | \$ 0.06                        | \$ 0.03          | \$ 0.09                      | \$ 0.04           |
| <b>Net income</b>                                     | <b>\$ 0.48</b>                 | <b>\$ 0.42</b>   | <b>\$ 0.75</b>               | <b>\$ 0.59</b>    |
| Average common shares outstanding during the period:  |                                |                  |                              |                   |
| Basic   | 175,469                        | 174,774          | 175,364                      | 174,747           |
| Diluted   | 176,436                        | 174,850          | 176,273                      | 174,820           |
| <b>Dividends per common share</b>                     | <b>\$ 0.45</b>                 | <b>\$ 0.21</b>   | <b>\$ 0.67</b>               | <b>\$ 0.42</b>    |

(a) Amounts may not sum due to rounding

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## Reconciliation Tables

| <b>Regulated Operations and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)*</b> |                           |                   |                         |                     |
|---|---------------------------|-------------------|-------------------------|---------------------|
| <i>In thousands</i>   |                           |                   |                         |                     |
|   | <b>Three Months Ended</b> |                   | <b>Six Months Ended</b> |                     |
|   | <b>June 30,</b>           |                   | <b>June 30,</b>         |                     |
|   | <b>2011</b>               | <b>2010</b>       | <b>2011</b>             | <b>2010</b>         |
| Total Regulated Operation and Maintenance Expenses  | \$ 271,383                | \$ 261,711        | \$ 536,336              | \$ 512,964          |
| Less: Regulated Purchased Water Expenses  | 25,565                    | 26,063            | 46,380                  | 46,421              |
| Adjusted Regulated Operation and Maintenance Expenses (a)                                     | <u>\$ 245,818</u>         | <u>\$ 235,648</u> | <u>\$ 489,956</u>       | <u>\$ 466,543</u>   |
| Total Regulated Operating Revenues  | \$ 594,441                | \$ 566,002        | \$ 1,122,722            | \$ 1,055,457        |
| Less: Regulated Purchased Water Revenues*   | 25,565                    | 26,063            | 46,380                  | 46,421              |
| Adjusted Regulated Operating Revenues (b)   | <u>\$ 568,876</u>         | <u>\$ 539,939</u> | <u>\$ 1,076,342</u>     | <u>\$ 1,009,036</u> |
| Regulated Operations and Maintenance Efficiency Ratio = (a)/(b)                               | 43.2%                     | 43.6%             | 45.5%                   | 46.2%               |

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

\* O&M Efficiency Ratio (A Non-GAAP, unaudited measure) = operating and maintenance expenses / revenues, adjusted to eliminate revenues and expenses related to purchased water .

\* Quarterly data reflects the effect of discontinued operations.

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## Reconciliation Tables

| Net income, exclusive of the cessation of depreciation associated with assets of discontinued operations (a Non-GAAP, unaudited measure)* |  |                                      |
|---|--|--------------------------------------|
| <i>In thousands</i>   |  |                                      |
|   | Three Months Ended<br>June 30,<br>2011 | Six Months Ended<br>June 30,<br>2011 |
| Net income  | \$ 84,566                              | \$ 131,898                           |
| Less: Cessation of depreciation, net of tax   | 3,159                                  | 7,888                                |
| Net income, exclusive of the cessation of depreciation associated with assets of discontinued operations                                  | <u>\$ 81,407</u>                       | <u>\$ 124,010</u>                    |
| Basic earnings per common share:  |  |                                      |
| GAAP net income   | <u>\$0.48</u>                          | <u>\$0.75</u>                        |
| Diluted earnings per common share:  |  |                                      |
| GAAP net income   | <u>\$0.48</u>                          | <u>\$0.75</u>                        |
| Basic earnings per common share:  |  |                                      |
| Adjusted net income   | <u>\$0.46</u>                          | <u>\$0.71</u>                        |
| Diluted earnings per common share:  |  |                                      |
| Adjusted net income   | <u>\$0.46</u>                          | <u>\$0.70</u>                        |

\* Net Income and EPS include the cessation of depreciation worth \$3.2 million after tax, or \$0.02 per share and \$7.9 million after tax and \$0.04 per share for the three and six months ended June 30, 2011, respectively, on assets under agreement for sale .

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## Balance Sheet Reconciliation for ROE

| <b><i>Return on Equity*</i></b><br><i>In thousands</i>   | <b>LTM<br/>Ended<br/>6/30/11</b> |
|--|----------------------------------|
| Total LTM Net income   | \$ 296,166                       |
| Less: Cessation of depreciation, net of tax  | <u>7,888</u>                     |
| LTM net income, exclusive of the cessation of depreciation associated with assets of discontinued operations (a) | <u>\$ 288,278</u>                |
| Common Stockholders equity   | \$ 4,157,920                     |
| Cessation adjustment   | <u>7,888</u>                     |
| Common Stockholders equity, adjusted (b)   | <u>\$ 4,150,032</u>              |
| <b>LTM Adjusted ROE % = (a)/(b)</b>  | <b>6.95%</b>                     |

*\* 2011 net income is adjusted for cessation of depreciation associated with assets of discontinued operations; there were no discontinued operations in prior periods.*