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

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

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

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

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

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

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

- issuances of our equity securities;

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

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

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

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

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

We may be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to our performance. These market events could include a decline over a period of time of our stock price, a decline over a period of time in valuation multiples of comparable water utilities, market price performance of our common stock that composes unfavorably to our peer companies, or decreases in control premiums. A decline in the results forecasted in our business plan due to events such as changes in rate case results, capital investment budgets or our interest rates, could also result in an impairment charge. Recognition of impairments of a significant portion of goodwill would negatively affect our reported results of operations and total capitalization, the effect of which could be material and could make it more difficult to maintain our credit ratings, secure financing on attractive terms, maintain compliance with debt covenants and meet expectations of our regulators.

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

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

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

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

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

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

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

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;

- physical and electronic loss of customer data due to security breaches, cyber attacks, misappropriation and similar events;
- computer viruses;
- intentional security breaches, hacking, denial of services actions, misappropriation of data and similar events; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

These events may result in physical and electronic loss of customer or financial data, security breaches, misappropriation and other adverse consequences. In addition, the lack of redundancy for certain of our IT systems, including billing systems, could exacerbate the impact of any of these events on us.

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

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

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

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

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

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

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

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

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

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

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

All of our contracts with the Department of Defense for the operation and maintenance of water and wastewater systems may be terminated, in whole or in part, prior to the end of the 50-year term for convenience of the U.S. Government or as a result of default or non-performance by the subsidiary performing the contract. In addition, the contract price for each of these military contracts is typically subject to redetermination two years after commencement of operations and every three years thereafter. Price redetermination is a contract mechanism to periodically adjust the service fee in the next period to reflect changes in contract obligations and anticipated market conditions. Any early contract termination or unfavorable price redetermination could adversely affect our results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

Alternative Water Supply in Lieu of Carmel River Diversions

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

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

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

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

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

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

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

A preliminary step to building the desalination plant is the test slant well project, involving the construction and operation of a test slant well, as well as monitoring well clusters and other related infrastructure, to confirm the suitability of the property on which permanent intake wells will be located to draw water from under Monterey Bay. As proposed by Cal Am, the site of the test slant well is on a property owned by one or more affiliates of Cemex, Inc. (collectively, "Cemex"), and in the WSP Settlement, the parties agreed that the preferred location to build a test slant well project is the Cemex property. Cal Am and Cemex have entered into an agreement under which Cal Am acquired a temporary investigative easement to construct and operate the test slant well together with monitoring wells and other related infrastructure on Cemex property and a four year option to purchase a permanent easement that will enable Cal Am's access to and operation of slant wells and related pipelines and utilities for the Water Supply Project on portions of the Cemex property to be determined if and when the final configuration of new water supply wells are approved by the California Coastal Commission ("Coastal Commission").

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

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

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

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

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

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

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

West Virginia Elk River Freedom Industries' Chemical Spill

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked two substances used for processing coal, 4-methylcyclohexane methanol, or MCHM, and PPH/DiPPH, a mix of polyglycol ethers, into the Elk River near the West Virginia-American Water Company ("WVAWC") treatment plant intake in Charleston, West Virginia. After having been alerted to the leak of MCHM by the West Virginia Department of Environmental Protection ("DEP"), WVAWC took immediate steps to gather more information about MCHM, augment its treatment process as a precaution, and begin consultations with federal, state and local public health officials. As soon as possible after it was determined that the augmented treatment process would not fully remove the MCHM, a joint decision was reached in consultation with the West Virginia Bureau for Public Health to issue a "Do Not Use" order for all of its approximately 93,000 customer accounts in parts of nine West Virginia counties served by the Charleston treatment plant. The order addressed the use of water for drinking, cooking, washing and bathing, but did not affect continued use of water for sanitation and fire protection. Over the next several days, WVAWC and an interagency team of state and federal officials engaged in extensive sampling and testing to determine if levels of MCHM were below one part per million (1 ppm), a level that the U.S. Centers for Disease Control and Prevention ("CDC") and EPA indicated would be protective of public health. Beginning on January 13, 2014, based on the results of the continued testing, the Do Not Use order was lifted in stages to help ensure the water system was not overwhelmed by excessive demand, which could have caused additional water quality and service issues. By January 18, 2014, none of WVAWC's customers were subject to the Do Not Use order, although CDC guidance suggesting that pregnant women avoid consuming the water until the chemicals were at non-detectable levels remained in place. In addition, based on saved samples taken on or before January 18, 2014, PPH/DiPPH was no longer detected in the water supply as of January 18, 2014. On February 21, 2014, WVAWC announced that all points of testing throughout its water distribution system indicated that levels of MCHM were below 10 parts per billion (10 ppb). The interagency team established 10 ppb as the "non-detect" level of MCHM in the water distribution system based on the measurement capabilities of the multiple laboratories used. WVAWC continued to work with laboratories to test down to below 2 ppb of MCHM and announced on March 3, 2014, that it had cleared the system to below this level.

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

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

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

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

General

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

ITEM 4. Mine Safety Disclosures

Not applicable

PART II

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

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

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

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
			(In thousands, except per share data)		
Other data:					
Cash flows provided by (used in):					
Operating activities	$ 1,097,287	896,162	$ 955,598	$ 808,357	$ 774,933
Investing activities [2]	$ (1,013,989)	(1,053,294)	$ (382,356)	$ (912,397)	$ (746,743)
Financing activities [2]	$ (87,182)	159,663	$ (563,016)	$ 105,135	$ (37,334)
Construction expenditures, included in investing activities	$ (956,119)	(980,252)	$ (928,574)	$ (924,858)	$ (765,636)
Dividends paid per common share [3]	$ 1.21	$ 0.84	$ 1.21	$ 0.90	$ 0.86
Dividends declared per common share [4]	$ 1.24	$ 1.12	$ 0.98	$ 1.13	$ 0.86

(1) This information has been restated to reflect the impact of discontinued operations, as applicable. See Note 3 of the Consolidated Financial Statements for additional details on our discontinued operations.

(2) The amount for the year ended December 31, 2012 includes net proceeds from the sale of our Arizona, New Mexico and Ohio subsidiaries of approximately $561 million, with the majority of it used to pay down short-term debt. For further information, see "Item 7—Management Discussion and Analysis—Consolidated Results of Operations."

(3) 2012 includes one additional dividend payment of $0.25 per common share paid on December 28, 2012 to shareholders of record as of December 20, 2012 to allow them to take advantage of the existing 2012 tax rates.

(4) Included in 2011 was a change in the timing of dividend declarations. As a result, five dividend declarations were made during 2011.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the financial statements and the notes thereto included elsewhere in this Form 10-K. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business, operations and financial performance. The cautionary statements made in this Form 10-K should be read as applying to all related forward-looking statements whenever they appear in this Form 10-K. Our actual results may differ materially *from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under "Risk Factors" and elsewhere in this Form 10-K. You should read "Risk Factors" and "Forward-Looking Statements."*

Executive Overview

General

American Water Works Company, Inc. (herein referred to as "American Water" or the "Company") is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenues and population served. Our approximately 6,400 employees provide drinking water, wastewater and other water related services to an estimated 15 million people in 47 states and in one Canadian province. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial, industrial and other customers. Our Regulated Businesses that provide these services are generally subject to economic regulation by state regulatory agencies in the states in which they operate. The federal government and the states also regulate environmental, health and safety and water quality matters. Our Regulated Businesses provide services in 16 states and serve approximately 3.2 million customers based on the number of active service connections to our water and wastewater networks. We report the results of these businesses in our Regulated Businesses segment. We also provide services that are not subject to economic regulation by state regulatory agencies. We report the results of these businesses in our Market-Based Operations segment.

In 2014, we continued the execution of our strategic goals. Our commitment to growth through investment in our regulated infrastructure and expansion of our regulated customer base and our Market-Based Operations, combined with operational excellence led to continued improvement in regulated operating efficiency, improved performance of our Market-Based Operations, and enabled us to provide increased value to our customers and investors. During the year, we focused on growth, addressed regulatory lag, made more efficient use of capital and improved our regulated operation and maintenance ("O&M") efficiency ratio.

2014 Financial Results

For the year ended December 31, 2014, we continued to increase net income, while making significant capital investment in our infrastructure and implementing operational efficiency improvements to keep customer rates affordable. Highlights of our 2014 operating results compared to 2013 and 2012 include:

	2014	2013	2012
Income from continuing operations	$ 2.39	$ 2.07	$ 2.10
Income (loss) from discontinued operations, net of tax	$(0.04)	$(0.01)	$(0.09)
Diluted earnings per share	$ 2.35	$ 2.06	$ 2.01

Continuing Operations

Income from continuing operations included 4 cents per diluted share of costs resulting from the Freedom Industries chemical spill in West Virginia in 2014 and included 14 cents per diluted share in 2013 related to a tender offer. Earnings from continuing operations, adjusted for these two items, increased 10%, or 22 cents per share, mainly due to favorable operating results from our Regulated Businesses segment due to higher revenues and lower operating expenses, partially offset by higher depreciation expenses. Also contributing to the overall increase in income from continuing operations was lower interest expense in 2014 compared to the same period in 2013.

Discontinued operations

In the fourth quarter of 2014, we sold our Terratec line of business, which was part of our Market-Based Operations segment. The loss from discontinued operations, net of tax reflected in the 2014 financial results includes the loss on the sale, an income tax valuation allowance and the 2014 operating results of the entity prior to the sale.

Also, as part of our portfolio optimization initiative, the sales of our regulated subsidiaries in Arizona, New Mexico and Ohio were completed during 2012. Discontinued operations include the gain/loss on sale, as well as the operating results of these subsidiaries.

See "Consolidated Results of Operations and Variances" and "Segment Results" below for further detailed discussion of the consolidated results of operations, as well as our business segments. All financial information in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") reflects continuing operations, unless otherwise noted. See Note 3 to Consolidated Financial Statements for further details on our discontinued operations.

Making Efficient Use of Capital

We invested approximately $1 billion and $950 million in Company-funded capital improvements in 2014 and 2013, respectively. These capital investments are needed on an ongoing basis to comply with existing and new regulations, renew aging treatment and network assets, provide capacity for new growth and ensure system reliability, security and quality of service. The need for continuous investment presents a challenge as we work to balance investment needs with customer affordability. In addition, the potential for regulatory lag, or the delay in recovering operating expenses may impact the level of our capital investments.

Expanding Markets and Developing New Offerings

During 2014, our Regulated Businesses completed the purchase of five regulated water systems, five regulated wastewater systems and three regulated water and wastewater systems. These acquisitions added approximately 2,100 water customers and 2,400 wastewater customers to our regulated operations. During 2014, our Military Services Group within our Market-Based Operations segment was awarded two U.S. military contracts. In January 2014, it was awarded a contract for operation and maintenance of the water and wastewater systems at Hill Air Force Base in Utah. In August 2014, the Military Services Group was awarded a contract for operation and maintenance of the water and wastewater systems at Picatinny Arsenal in New Jersey. During 2014, our Homeowners Services Group ("HOS") began offering its water and sewer line protection programs in eight new states. Additionally, Orlando Utilities Commission ("OUC") awarded HOS a contract to be OUC's exclusive provider of service line protection programs. This contract enables HOS to market its water line, sewer line, in-home plumbing, interior electric, surge, commercial water line and commercial sewer line protection programs to OUC's 234,000 customers. In 2014, HOS also launched its interior electric program and continued to develop new products and services to better meet customer needs.

On November 4, 2014 voters in Haddonfield, New Jersey, Arnold, Missouri and Russiaville, Indiana approved referendums for us to purchase their water and/or wastewater assets. Following regulatory approval and financial close, these three acquisitions will add approximately 19,000 customers to the company's regulated footprint. Additionally, in February, 2015 our Illinois subsidiary entered into an agreement to purchase the City of Mt. Vernon's water and wastewater systems, which serves about 6,600 customer connections.

Continuing Improvement in O&M Efficiency Ratio for our Regulated Businesses

We continued to improve on our O&M efficiency ratio during 2014. Our O&M efficiency ratio was 36.7% for the year ended December 31, 2014 compared to 38.5% and 40.7% for the years ended December 31, 2013 and 2012, respectively. The improvement in our 2014 O&M efficiency ratio in 2014 was principally attributable to the increase in our Regulated Businesses' revenues as well as a decrease in adjusted O&M expenses compared to the same period in 2013.

Our O&M efficiency ratio (a non-GAAP measure) is defined as our regulated operation and maintenance expense divided by regulated operating revenues, where both O&M expense and operating revenues are adjusted to eliminate purchased water expense. We also excluded from operating revenues and O&M expenses the impact from weather and the West Virginia Freedom Industries chemical spill. Additionally, from the O&M expenses, we exclude the allocable portion of non-O&M support services cost, mainly depreciation and general taxes that are reflected in the Regulated Businesses segment as O&M costs but for consolidated financial reporting purposes are categorized within other lines in the Statement of Operations.

Management believes that this calculation better reflects the Regulated Businesses segment's O&M efficiency ratio. We evaluate our operating performance using this measure, as it is the primary measure of the efficiency of our regulated operations. This information is intended to enhance an investor's overall understanding of our operating performance. O&M efficiency ratio is not a measure defined under GAAP and may not be comparable to other companies' operating measures or deemed more useful than the GAAP information provided elsewhere in this report. The following table provides a reconciliation between operation and maintenance expense and operating revenues, as determined in accordance with GAAP, and to those amounts utilized in the calculation of our O&M efficiency ratio for the years ended December 31, 2014, 2013 and 2012:

Regulated O&M Efficiency Ratio (a Non-GAAP Measure)

	For the Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Total O&M expense	$1,349,864	$1,289,081	$1,329,500
Less:			
O&M expense—Market-Based Operations	289,395	240,610	256,269
O&M expense—Other	(51,038)	(56,973)	(56,755)
Total Regulated O&M expense	1,111,507	1,105,444	1,129,986
Less:			
Regulated purchased water expense	121,301	111,119	110,173
Allocation of internal O&M costs	38,985	34,635	35,067
Impact of West Virginia Freedom Industries chemical spill	10,438	—	—
Estimated impact of weather (mid-point of range)	(1,762)	(1,687)	4,700
Adjusted Regulated O&M expense (a)	$ 942,545	$ 961,377	$ 980,046
Total Operating Revenues	$3,011,328	$2,878,936	$2,853,926
Less:			
Operating revenues—Market-Based Operations	354,679	302,541	307,366
Operating revenues—Other	(17,680)	(17,523)	(17,874)
Total Regulated operating revenues	2,674,329	2,593,918	2,564,434
Less:			
Regulated purchased water expense*	121,301	111,119	110,173
Plus:			
Impact of West Virginia Freedom Industries chemical spill	1,012	—	—
Estimated impact of weather (mid-point of range)	16,785	15,625	(47,400)
Adjusted Regulated operating revenues (b)	$2,570,825	$2,498,424	$2,406,861
Regulated O&M efficiency ratio (a)/(b)	36.7%	38.5%	40.7%

* Note calculation assumes purchased water revenues approximate purchased water expenses.

Addressing Regulatory Lag

In 2014, additional annualized revenues from general rate cases amounting to $43.7 million, including step increases totaling $5.7 million, became effective. Also, in 2014, we were granted $34.6 million in additional annualized revenues, assuming constant sales volume, from infrastructure charges in several of our states.

On November 21, 2014, we reached a stipulation and settlement agreement related to our rate case with the Indiana Office of the Utility Consumers Counselor. This agreement was submitted to the Indiana Utility Regulatory Commission for consideration. On January 28, 2015, the PUC issued their order which provides additional annualized revenues totaling $5.1 million effective as of January 29, 2015.

On February 19, 2014, the Company, the Office of Ratepayer Advocate and other intervenors submitted an amended settlement of $24.0 million that includes a test year 2015 revenue requirement increase of $12.7 million from the July 2013 filing date. The settlement also provides for escalation and attrition adjustments in 2016 and 2017 of $5.0 million and $6.3 million, respectively. The agreement is pending regulatory approval and is subject to change.

On October 29, 2014, our Tennessee subsidiary filed for additional annualized revenues from infrastructure charges in the amount of $2.4 million, as adjusted.

In the fourth quarter of 2014, we filed two general rate cases. On November 14, 2014, our Kentucky subsidiary filed a general wastewater rate case requesting an additional $0.1 million in annualized revenues. On December 19, 2014, our Maryland subsidiary filed a general rate case requesting an additional $0.8 million in annualized revenues.

On January 9, 2015, our New Jersey subsidiary filed a general rate case requesting additional annualized revenues of $66.2 million. Additionally, annualized revenues of $9.4 million and $6.4 million resulting in infrastructure charges in our New Jersey and Illinois subsidiaries, respectively, became effective in 2015.

In total, as of February 20, 2015, we are awaiting final orders in four states requesting additional annualized revenues of approximately $91.1 million, for general rate cases, and the $2.4 million in additional annualized revenues in Tennessee for infrastructure charges.

Other matters

West Virginia Event

On January 9, 2014, a chemical storage tank owned by Freedom Industries, Inc. leaked 4-methylcyclohexane methanol, or MCHM, and PPH/DiPHH, a mix of polyglycol ethers, into the Elk River near the WVAWC treatment plant in Charleston, West Virginia. As a result of this event, income after income taxes for the twelve months ended December 31, 2014 was reduced by $7.0 million or $0.04 per share. See Part I, Item 3, "Legal Proceedings" in this report for information regarding litigation and an investigation by the Public Service Commission of West Virginia relating to the Freedom Industries chemical spill. The Company and WVAWC believe that WVAWC has responded appropriately to, and has no responsibility for, the Freedom Industries chemical spill, and the Company, WVAWC and other Company affiliates have valid, meritorious defenses to the lawsuits. Nevertheless, an adverse outcome in one or more of the lawsuits could have a material adverse effect on our financial condition, results of operations, cash flows, liquidity and reputation. Moreover, WVAWC and the Company are unable to predict the outcome of the ongoing government investigations or any legislative initiatives that might affect water utility operations.

2015 and Beyond

Our future results are anchored on five central themes with customers at the center of all we do. These five central themes are:

Customers

- Our focus continues to concentrate on our customers by achieving customer satisfaction and service quality targets. In addition, we will continue to balance our infrastructure investment needs with the affordability impact on customer bills.

Safety

- Our focus continues on driving safety in everything that we do. Our safety focus includes safety of employees, customers and the public. We have made safety a core value of our company.

People

- Our focus on employees and our culture is paramount to our success going forward. We intend to focus on ensuring we have strong relationships with our union represented employees, effective training and development and diversity of our workforce.

Growth

- We expect to invest $6 billion over the next five years, with $1.2 billion in 2015, as follows:
  - Capital investment to improve infrastructure in our Regulated Businesses of $5.2 billion, with $1.1 billion expected in 2015.
  - Growth from acquisitions in our Regulated Businesses to expand our water and wastewater customer base of $540 million.
  - Growth in our Market-Based businesses from new core growth, expanded markets and new offerings, and evaluate potential opportunities to assist the shale industry in the delivery of water to support their processes. We have estimated strategic capital of $230 million.

Technology & Operational Efficiency

- Continued commitment to operational efficiency, technology innovation and environmental stewardship. We intend to continue to modernize our infrastructure and focus on operational efficiencies, while bolstering a culture of continuous improvement. We have set a goal to achieve an O&M efficiency ratio equal to or below 34% by 2020. In regards to environmental sustainability, we are committed to maximizing our protection of the environment, reducing our carbon and waste footprints and water lost through leakage.

We are committed to operating our business responsibly and managing our operating and capital costs in a manner that benefits our customers and produces value for our shareholders. We are committed to an ongoing strategy that leverages processes and technology innovation to make ourselves more effective and efficient.

Consolidated Results of Operations

The following table sets forth our consolidated statement of operations data for the years ended December 31, 2014, 2013 and 2012:

	Years Ended December 31,		
	2014	2013	2012
	(In thousands, except per share data)		
Operating revenues	$3,011,328	$2,878,936	$2,853,926
Operating expenses			
Operation and maintenance	1,349,864	1,289,081	1,329,500
Depreciation and amortization	424,084	406,717	380,402
General taxes	236,732	234,198	220,758
(Gain) loss on asset dispositions and purchases	(1,928)	624	(838)
Total operating expenses, net	2,008,752	1,930,620	1,929,822
Operating income	1,002,576	948,316	924,104
Other income (expenses)			
Interest, net	(297,818)	(308,164)	(310,794)
Loss on extinguishment of debt	—	(40,583)	—
Allowance for other funds used during construction	9,440	12,639	15,592
Allowance for borrowed funds used during construction	5,838	6,377	7,771
Amortization of debt expense	(7,026)	(6,603)	(5,358)
Other, net	(3,196)	(4,045)	(926)
Total other income (expenses)	(292,762)	(340,379)	(293,715)
Income from continuing operations before income taxes	709,814	607,937	630,389
Provision for income taxes	279,973	237,093	256,787
Income from continuing operations	429,841	370,844	373,602
Loss from discontinued operations, net of tax	(6,733)	(1,580)	(15,532)
Net income	$ 423,108	$ 369,264	$ 358,070
Other comprehensive income (loss), net of tax:			
Change in employee benefit plan funded status, net of tax of $(29,487), $46,974 and $(16,894), respectively	$ (46,119)	$ 73,472	$ (26,425)
Pension amortized to periodic benefit cost:			
Prior service cost, net of tax of $106, $111 and $113, respectively	166	174	176
Actuarial (gain) loss, net of tax of $(19), $5,697 and $4,668, respectively	(31)	8,911	7,301
Foreign currency translation adjustment	(458)	(1,001)	434
Unrealized loss on cash flow hedge, net of tax of $(428)	(791)	—	—
Other comprehensive income (loss)	(47,233)	81,556	(18,514)
Comprehensive income	$ 375,875	$ 450,820	$ 339,556
Basic earnings per share: (a)			
Income from continuing operations	$ 2.40	$ 2.08	$ 2.12
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.36	$ 2.08	$ 2.03

	Years Ended December 31,		
	2014	2013	2012
	(In thousands, except per share data)		
Diluted earnings per share: (a)			
Income from continuing operations	$ 2.39	$ 2.07	$ 2.10
Loss from discontinued operations, net of tax	$ (0.04)	$ (0.01)	$ (0.09)
Net income	$ 2.35	$ 2.06	$ 2.01
Average common shares outstanding during the period			
Basic	178,888	177,814	176,445
Diluted	179,806	179,056	177,671
Dividends declared per common share	$ 1.24	$ 1.12	$ 0.98

(a) Amounts may not sum due to rounding.

Comparison of consolidated Results of Operations for the Years Ended December 31, 2014 and 2013

Operating revenues. Consolidated operating revenues for the year ended December 31, 2014 increased $132.4 million, or 4.6%, compared to the same period in 2013. This increase is the result of higher revenues in our Regulated Businesses of $80.4 million, which was mainly attributable to rate increases, incremental revenues from surcharges and balancing accounts and acquisitions partially offset by reduced consumption in 2014. Also contributing to the higher revenue was a $52.1 million increase in our Market-Based Operations segment. The primary drivers were incremental revenue from contract growth in HOS, and for our military contracts, price redeterminations and increased construction project activity with the largest increase due to the Fort Polk wastewater treatment plant project awarded in late 2013. For further information see the respective "Operating Revenues" discussions within the "Segment Results."

Operation and maintenance. Consolidated operation and maintenance expense for the year ended December 31, 2014 increased $60.8 million, or 4.7%, compared to 2013. The increase is primarily due to an increase in our Market-Based Operations segment of $48.8 million principally as a result of incremental costs related to the increased activity under our military contracts, corresponding with the increased revenue. Also, our Regulated Businesses' costs increased by $6.1 million principally due to increased production costs, uncollectible expense, maintenance expenses and costs associated with the Freedom Industries chemical spill in West Virginia partially offset by lower employee-related costs. For further information see the respective "Operation and Maintenance" discussions within the "Segment Results."

Depreciation and amortization. Depreciation and amortization expense increased by $17.4 million, or 4.3%, for the year ended December 31, 2014 compared to the same period in the prior year as a result of additional utility plant placed in service, including our Customer Information and Enterprise Asset Management systems that were placed into service during the second and fourth quarters of 2013.

Other income (expenses). Other expenses decreased by $47.6 million, or 14.0%, for the year ended December 31, 2014 compared to the same period in the prior year. This decrease is principally attributable to the recognition of a pre-tax loss on debt extinguishment in 2013 of $40.6 million in connection with the cash tender offer for our 6.085% Senior Notes due 2017. Also contributing to the decrease was a reduction in interest expense resulting from interest savings as a result of our 2014 and 2013 refinancings, offset by a reduction in allowance for funds used during construction ("AFUDC") which is mainly attributable to our Customer Information and Enterprise Asset Management systems being placed into service in the second and fourths quarters of 2013.

Provision for income taxes. Our consolidated provision for income taxes increased $42.9 million, or 18.1%, to $280.0 million for the year ended December 31, 2014. The effective tax rates for the years ended December 31, 2014 and 2013 were 39.4% and 39.0%, respectively. The rate for the year ended December 31, 2013 includes a $3.0 million tax benefit associated with a legal structure reorganization within our Market-Based Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards, which without the restructuring most likely would not have been utilized prior to their expiration.

Loss from discontinued operations, net of tax. As previously noted, the financial results of our Terratec line of business within our Market-Based Operations segment was classified as discontinued operations for all periods presented. The sale of Terratec was completed in the fourth quarter of 2014. The increase in the loss from discontinued operations, net of tax is primarily related to the after-tax loss recorded on the sale of $2.3 million and lower operating results in 2014 compared to 2013.

Comparison of consolidated Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues. Consolidated operating revenues for the year ended December 31, 2013 increased $25.0 million, or 0.9%, compared to the same period in 2012. This increase is the result of higher revenues in our Regulated Businesses of $29.5 million, which was mainly attributable to rate increases partially offset by decreased consumption, primarily related to weather. For further information see the respective "Operating Revenues" discussions within the "Segment Results."

Operation and maintenance. Consolidated operation and maintenance expense for the year ended December 31, 2013 decreased $40.4 million, or 3.0%, compared to 2012. This change was mainly attributable to a $24.5 million decrease in our Regulated Businesses' costs primarily related to a decrease in employee-related costs, primarily pension and group insurance expense as well as lower preventive maintenance expenses. For further information see the respective "Operation and Maintenance" discussions within the "Segment Results."

Depreciation and amortization. Depreciation and amortization expense increased by $26.3 million, or 6.9%, for the year ended December 31, 2013 compared to the same period in the prior year as a result of additional utility plant placed in service including our business transformation project, which accounted for $10.8 million of the incremental expense in 2013.

General taxes. General taxes expense, which includes taxes for property, payroll, gross receipts and other miscellaneous items, increased by $13.4 million, or 6.1%, for the year ended December 31, 2013 compared to the year ended December 31, 2012. This increase was principally due to incremental taxes in the first half of 2013 associated with the properties acquired in our New York acquisition in the second quarter of 2012. Also, 2012 property taxes were lower due to the recognition of credit adjustments in Indiana and Missouri which reduced property tax expense in the third quarter of 2012. Lastly, gross receipts taxes were higher in our New Jersey subsidiary by $3.5 million.

Other income (expenses). Other expenses increased $46.7 million, or 15.9%, for the year ended December 31, 2013 compared to the same period in the prior year. This increase is principally attributable to the recognition of a pre-tax loss on debt extinguishment of $40.6 million in connection with the cash tender offer for our 6.085% Senior Notes due 2017. The loss consisted of a repurchase premium of $39.4 million, transaction fees of $0.7 million and a write-off of $0.5 million for unamortized debt issuance costs. Also contributing to the increase was a reduction in allowance for funds used during construction ("AFUDC") of $4.3 million resulting from decreased construction activities, compared to the same period in 2012, including the winding down of our business transformation project.

Provision for income taxes. Our consolidated provision for income taxes decreased $19.7 million, or 7.7%, to $237.1 million for the year ended December 31, 2013. The effective tax rates for the years ended December 31, 2013 and 2012 were 39.0% and 40.7%, respectively. The rate for the year ended December 31, 2013 includes a $3.0 million tax benefit associated with a legal structure reorganization within our Market-Based

Operations segment. This strategic restructuring allowed us to utilize state net operating loss carryforwards, which without the restructuring most likely would not have been utilized prior to their expiration.

Loss from discontinued operations, net of tax. As noted above, the financial results of our regulated water and wastewater systems in Arizona, New Mexico, Texas and Ohio and our Applied Water Management, Inc. subsidiary within the Market-Based Operations segment have been classified as discontinued operations for all periods presented. The loss in 2012 is primarily comprised of net losses recorded in connection with the disposition of our Arizona, New Mexico and Ohio subsidiaries.

Segment Results of Operations

We have two operating segments, which are also our reportable segments: the Regulated Businesses and the Market-Based Operations. These segments are determined based on how we assess performance and allocate resources. We evaluate the performance of our segments and allocated resources based on several factors, with the primary measure being income from continuing operations before income taxes.

Regulated Businesses Segment

The following table summarizes certain financial information for our Regulated Businesses for the periods indicated:

	For the Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Operating revenues	$2,674,329	$2,593,918	$2,564,434
Operation and maintenance expense	1,111,507	1,105,444	1,129,986
Operating expenses, net	1,725,651	1,700,052	1,685,734
Income from continuing operations before income taxes	707,449	654,834	649,117

Operating Revenues. Our primary business involves the ownership of water and wastewater utilities that provide services to residential, commercial, industrial and other customers. This business is subject to state regulation and our results of operations can be impacted significantly by rates authorized by the state regulatory commissions in the states in which we operate. The table below details additional annualized revenues awarded, including step increases and assuming a constant volume, resulting from rate authorizations granted in 2014, 2013 and 2012:

	Years Ended December 31,		
	2014	2013	2012
		(In millions)	
State			
General Rate Cases:			
Pennsylvania [1]	$—	$26.0	$ —
New Jersey	—	—	30.0
Kentucky [2]	—	6.9	—
Missouri	—	—	24.0
Illinois	—	—	17.9
Indiana	—		1.9
California [3]	1.9	3.5	32.9
West Virginia [4]	—	8.5	—
Virginia[5]	—	—	2.6
Tennessee	—	—	5.2
Iowa[6]	3.8	—	2.8
New York[7]	—	—	5.6
Other	—	0.1	0.2
Total—General Rate Cases	$ 5.7	$45.0	$123.1

(1) On December 19, 2013, a rate case settlement was approved with an effective date of January 1, 2014. This rate increase combined, in part, wastewater and water rates.

(2) Final order was received on October 25, 2013. The increase approximated the interim rates, net of the reserve that had been recorded since July 27, 2013.

(3) Second and final step increases from the 2012 rate case became effective on April 1, 2013 and April 1, 2014, respectively.

(4) Final order issued on September 26, 2013 by the West Virginia Public Service Commission. New rates were put into effect October 11, 2013.

(5) The new rates provided additional annualized revenues of $2.3 million in 2012 and $4.3 million in 2011 for jurisdictional customers, and $0.3 million in 2013 and $0.5 million in 2011 for non-jurisdictional customers, which are not subject to commission approval.

(6) Effective date of new rates was April 18, 2014. The increase included approximately $2.7 million of interim rates that were effective May 10, 2013.

(7) Amount includes a $3.0 million increase effective April 1, 2012, with the remainder of $1.4 million and $1.2 million becoming effective April 1, 2013 and April 1, 2014, respectively.

The effective dates for the more significant increases granted in 2012 were January 1, 2012, April 1, 2012, May 1, 2012 and October 1, 2012 for our California, Missouri, New Jersey, and Illinois subsidiaries, respectively.

As previously noted, an increasing number of states are permitting rates to be adjusted outside of a general rate case for certain costs, such as mechanisms that permit a return on capital investments to replace aging infrastructure. The following table details additional annualized revenues authorized through infrastructure surcharge mechanisms which were granted in 2014, 2013 and 2012. As these surcharges are typically rolled into the new base rates and therefore are reset to zero when new base rates are effective, certain of these charges may also be reflected in the total general rate case amounts awarded in the table above if the order date was following the infrastructure surcharge filing date:

	Years Ended December 31, 2014	2013	2012
		(In millions)	
Infrastructure Charges:			
Pennsylvania (1)	$—	$19.8	$10.5
New Jersey (2)	17.5	4.0	—
Missouri (3)	12.7	7.9	4.2
Indiana (4)	—	3.9	3.7
Illinois (5)	2.1	0.5	—
New York (6)	1.8	—	—
Other	0.5	—	—
Total—Infrastructure Charges	$34.6	$36.1	$18.4

(1) Quarterly filings made with PUC. $6.7 million, $3.7 million, $2.9 million and $6.5 million effective October 1, 2013, July 1, 2013, April 1, 2013 and January 1, 2013, respectively. No infrastructure charges in 2014 as a result of general rate case effective January 1, 2014 utilized forecasted test year and therefore qualifying infrastructure improvements already reflected in rates.

(2) Semi-annual filings made with the PUC. $7.4 million, $10.1 million and $4.0 million effective July 1, 2014, January 1, 2014 and July 1, 2013, respectively.

(3) For 2014, $9.0 million and $3.7 million effective December 31, 2014 and May 30, 2014, respectively. For 2013, $5.4 million effective June 21, 2013 and $2.5 million effective December 14, 2013.

(4) Effective December 18, 2013.

(5) $2.1 million effective January 1, 2014 and $0.5 million effective October 1, 2013.

(6) $0.9 million effective January 1, 2014, $0.7 million effective March 3, 2014 and $0.2 million effective April 1, 2014.

Comparison of Results of Operations for the Years Ended December 31, 2014 and 2013

Operating revenues increased by $80.4 million, or 3.1%, for the year ended December 31, 2014 compared to the same period in 2013. The increase in revenues is principally due to incremental revenues of approximately $80.0 million attributable to rate increases, including infrastructure mechanisms, obtained through rate authorizations for a number of our operating companies. Additionally, revenues increased by $10.9 million due to an increase in surcharges and balancing accounts and by approximately $12.6 million attributable to acquisitions. The most significant contributor to the increase in revenues from acquisitions was Dale Service Corporation ("Dale"), which was acquired by our Virginia Subsidiary in the fourth quarter of 2013. Partially offsetting these increases was a decrease in revenues of approximately $27.0 million as a result of lower demand.

The following table sets forth the amounts and percentages of Regulated Businesses' revenues and billed water sales volume by customer class:

	For the Years Ended December 31,							
	2014	2013	Increase (Decrease)	Percentage	2014	2013	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$1,515,049	$1,465,174	$ 49,875	3.4%	176,975	180,976	(4,001)	(2.2%)
Commercial	550,124	520,875	29,249	5.6%	81,564	80,392	1,172	1.5%
Industrial	131,834	118,939	12,895	10.8%	39,833	37,107	2,726	7.3%
Public and other	333,048	312,369	20,679	6.6%	52,710	51,009	1,701	3.3%
Other water revenues	26,377	17,546	8,831	50.3%	—	—	—	—
Billed water services	2,556,432	2,434,903	121,529	5.0%	351,082	349,484	1,598	0.5%
Unbilled water services	(25,419)	30,142	(55,561)	(184.3%)				
Total water revenues	2,531,013	2,465,045	65,968	2.7%				
Wastewater revenues	93,067	82,831	10,236	12.4%				
Other revenues	50,250	46,043	4,207	9.1%				
	$2,674,330	$2,593,919	$ 80,411	3.1%				

Water Services—Consistent with the above discussion, water service operating revenues for the year ended December 31, 2014 totaled $2,531.0 million, a $66.0 million increase, or 2.7%, over the same period of 2013. As described above, the increases are primarily due to rate increases, infrastructure surcharges, amortization of balancing accounts and recent acquisitions. Also, it should be noted that the mix between billed revenues and unbilled revenues has changed. This is principally the result of the implementation of our Customer Information System ("CIS") as part of Phase II of our business transformation project. At December 31, 2013, unbilled revenues were significantly higher than historical levels due to billing delays in certain accounts. During the first quarter of 2014, we addressed a majority of these delayed billings. Therefore, as a result, the unbilled water revenues decreased by $55.6 million with corresponding increases in billed revenues.

Wastewater services—Our subsidiaries provide wastewater services in 11 states. Revenues from these services increased $10.2 million, or 12.4%, compared to the year ended December 31, 2013. The increase was primarily attributable to incremental revenues resulting from acquisitions, most notably the Dale acquisition in the fourth quarter of 2013.

Other revenues—Other revenues, which includes such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased $4.2 million, or 9.1%, compared to the year ended December 31, 2013. The increase in revenues for the year ended December 31, 2014, as compared to the same period in the prior year, was mainly due to $2.4 million in insurance proceeds for business interruption as a result of Hurricane Sandy in addition to an increase in late payment fees.

Operation and maintenance expense. Operation and maintenance expense increased $6.1 million, or 0.5%, for the year ended December 31, 2014, compared to the year ended December 31, 2013. Operation and maintenance expense for 2014 and 2013, by major expense category, was as follows:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 289,168	$ 271,181	$ 17,987	6.6%
Employee-related costs	429,878	455,690	(25,812)	(5.7%)
Operating supplies and services	216,154	215,702	452	0.2%
Maintenance materials and supplies	68,027	65,853	2,174	3.3%
Customer billing and accounting	61,459	52,625	8,834	16.8%
Other	46,821	44,393	2,428	5.5%
Total	$1,111,507	$1,105,444	$ 6,063	0.5%

Production costs including fuel and power, purchased water, chemicals and waste disposal costs increased by $18.0 million, or 6.6%, for 2014 compared to 2013. Production costs by major expense type were as follows:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased water	$121,301	$111,119	$10,182	9.2%
Fuel and power	92,011	86,337	5,674	6.6%
Chemicals	45,930	47,901	(1,971)	(4.1%)
Waste disposal	29,926	25,824	4,102	15.9%
Total	$289,168	$271,181	$17,987	6.6%

Overall production costs increased for the year ended December 31, 2014 compared to the prior year as a result of increases in purchased water, fuel and power costs and waste disposal. Partially offsetting these increases was a decrease in chemicals due to a $1.8 million reversal of chemical expense resulting from a favorable litigation settlement. The purchased water increases principally reflect increased prices in our California subsidiary and, to a lesser extent, price increases in our Illinois subsidiary. Fuel and power costs increased due to higher supplier prices in several of our operating facilities as well as incremental costs as a result of the Dale acquisition in the fourth quarter of 2013. The increase in waste disposal costs was principally due to an increase in the amount allowed by a cost recovery mechanism in one of our operating companies and the Dale acquisition. Also contributing to the increase was incremental costs associated with the Freedom Industries chemical spill in West Virginia.

Employee-related costs including salaries and wages, group insurance, and pension expense decreased $25.8 million, or 5.7%, for 2014 compared to 2013. These employee-related costs represented 38.7% and 41.2% of operation and maintenance expense for 2014 and 2013, respectively, and include the categories shown in the following table:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$328,329	$323,022	$ 5,307	1.6%
Pensions	26,805	48,374	(21,569)	(44.6%)
Group insurance	55,196	65,872	(10,676)	(16.2%)
Other benefits	19,548	18,422	1,126	6.1%
Total	$429,878	$455,690	$(25,812)	(5.7%)

The overall decrease in employee-related costs for the year ended December 31, 2014, compared to 2013, was primarily due to a reduction in pension costs and postretirement benefit costs (which is included in group insurance expenses). These decreases are principally due to the change in assumptions used for the discount rate, which in turn resulted in decreased contributions. The decrease in contributions occurred at those regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Partially offsetting these decreases was an increase in salaries and wages expense as a result of annual wage increases and increased overtime expense attributable to an increased number of main breaks as a result of the harsh winter weather conditions and increases in severance expense as a result of the restructuring of certain functions, offset by a reduction in incentive compensation due to a lower than expected payout for the 2013 incentive period as well as higher capitalization rates as a result of increased capital projects.

Operating supplies and services include expenses for office operation, legal and other professional services, including transportation expenses, information systems rental charges and other office equipment rental charges. Overall, these costs remained relatively unchanged with an increase of $0.5 million, or 0.2%, for the year ended December 31, 2014 compared to the same period in 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Contracted services	$ 88,466	$ 93,744	$(5,278)	(5.6%)
Office supplies and services	45,224	45,272	(48)	(0.1%)
Transportation	19,749	20,620	(871)	(4.2%)
Rents	15,339	15,830	(491)	(3.1%)
Other	47,376	40,236	7,140	17.7%
Total	$216,154	$215,702	$ 452	0.2%

The increase in other operating supplies and services was primarily offset by a decrease in contracted services. Other operating supplies and services increased as a result of a $2.2 million increase in customer education and communication in California related to community relations and Measure "0" and an $0.8 million increase in conservation expense as well as the inclusion in 2013 of $1.6 million of insurance proceeds for the recovery of expenses related to Hurricanes Irene and Sandy and an increase in legal expenses. The decrease in contracted services is primarily the result of the completion of our business transformation project, consisting of the roll-out of our Enterprise Asset Management system and CIS, which required the use of additional contracted services in 2013. These decreases were partially offset by increases resulting from the Freedom Industries chemical spill in West Virginia.

Maintenance materials and supplies, which include preventive maintenance and emergency repair costs, increased $2.2 million, or 3.3%, for 2014 compared to 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Maintenance materials and supplies	$68,027	$65,853	$2,174	3.3%

The increase for the year ended December 31, 2014, compared to the same period in 2013, is primarily due to increases in paving, backfilling and other repair costs, most of which are from the higher than normal main breaks in the first quarter of 2014 due to the abnormally harsh winter weather conditions experienced throughout our operating areas.

Customer billing and accounting expenses increased by $8.8 million, or 16.8%, for 2014 compared to 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
		(Dollars in thousands)		
Uncollectible accounts expense	$35,027	$26,443	$8,584	32.5%
Postage	13,793	12,757	1,036	8.1%
Other	12,639	13,425	(786)	(5.9%)
Total	$61,459	$52,625	$8,834	16.8%

The increase for 2014 is primarily due to incremental uncollectible expense associated with an increase in customer accounts receivable attributable to the overall aging of receivables as well as rate increases. We believe the change in our aging of receivables in 2014 is the result of temporary changes we made in our collection process in connection with the implementation of our new CIS in 2013, including Phase II which occurred in the fourth quarter of 2013.

Other operation and maintenance expense includes casualty and liability insurance premiums and regulatory costs. These costs increased by $2.4 million, or 5.5%, for 2014 compared to 2013.

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
		(Dollars in thousands)		
Insurance	$41,067	$35,406	$ 5,661	16.0%
Regulatory expenses	5,754	8,987	(3,233)	(36.0%)
Total	$46,821	$44,393	$ 2,428	5.5%

The increase for the year ended December 31, 2014, compared to the year ended December 31, 2013, is primarily due to an increase in our expected premiums, principally due to incremental claims associated with the Freedom Industries chemical spill in West Virginia, net of favorable forecasted experience for existing claims. These premiums are based upon current facts and circumstances with respect to outstanding claims and are subject to change as the claims mature. The increase in insurance costs is partially offset by lower regulatory expenses in one of our operating subsidiaries compared to the same period in the prior year.

Operating expenses. The increase in operating expenses for the year ended December 31, 2014 is principally due to the higher operation and maintenance expenses explained above and higher depreciation and amortization expense of $18.2 million. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including CIS and our Enterprise Asset Management system.

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues increased by $29.5 million, or 1.1%, for the year ended December 31, 2013 compared to the same period in 2012. The increase in revenues was primarily due to rate increases obtained through rate authorizations for a number of our operating companies of which the impact was approximately $72.4 million. Additionally revenues increased by $16.4 million due to increased surcharge and amortization of balancing accounts. Lastly, revenues were higher by $9.9 million as a result of acquisitions, with the most significant being the result of our New York acquisition in the second quarter of 2012 (additional four months of revenue in 2013 compared to 2012) and the acquisition of Dale by our Virginia subsidiary in the fourth quarter of 2013. These increases were partially offset by decreased revenues of approximately $64.5 million as a result of lower demand, principally driven by the hot and dry weather conditions in the central and northeast portions of the country in 2012 versus cooler and wetter weather conditions in 2013.

The following table sets forth the amounts and percentages of Regulated Businesses' revenues and billed water sales volume by customer class:

	For the Years Ended December 31,							
	2013	2012	Increase (Decrease)	Percentage	2013	2012	Increase (Decrease)	Percentage
	Operating Revenues (Dollars in thousands)				Billed Water Sales Volume (Gallons in millions)			
Customer Class								
Water service								
Residential	$1,465,174	$1,465,803	$ (629)	(0.0%)	180,976	188,927	(7,951)	(4.2%)
Commercial	520,875	518,253	2,622	0.5%	80,392	84,226	(3,834)	(4.6%)
Industrial	118,939	121,902	(2,963)	(2.4%)	37,107	39,429	(2,322)	(5.9%)
Public and other	312,369	321,593	(9,224)	(2.9%)	51,009	54,202	(3,193)	(5.9%)
Other water revenues	17,546	16,992	554	3.3%	—	—	—	—
Billed water services	2,434,903	2,444,543	(9,640)	(0.4%)	349,484	366,784	(17,300)	(4.7%)
Unbilled water services	30,142	4,484	25,658	572.2%				
Total water revenues	2,465,045	2,449,027	16,018	0.7%				
Wastewater revenues	82,831	78,168	4,663	6.0%				
Other revenues	46,043	42,547	3,496	8.2%				
	$2,593,919	$2,569,742	$24,177	0.9%				

Water Services—Consistent with the above discussion, water service operating revenues for the year ended December 31, 2013 totaled $2,465.0 million, a $21.3 million increase, or 0.9%, over the same period of 2012. However, the mix between billed revenues/billed volumes to unbilled revenues/unbilled volumes changed significantly principally as a result of our CIS implementation. Unbilled revenue increased $25.7 million compared to the same period in the prior year mainly as a result of delayed invoicing to customers. With the implementation, we made a decision to increase the level of scrutiny and verification around bills being generated by the new system, in particular larger and/or more complex bills. As such bills that exceed certain tolerance levels are being held until verification can be performed. As such, the timing of issuance of bills has caused a decrease in billed volumes in 2013 when compared to 2012, with a corresponding increase in unbilled usage. For our residential and commercial customers, we believe that the majority of the decline in billed volumes was attributable to the weather abnormalities between 2012 and 2013 as well as the implementation of our new CIS system by our regulated subsidiaries. For the remaining customer classes, we believe the decline in billed volumes was mainly due to the delay in invoicing the customer as a result of our CIS implementation.

Wastewater services—Our subsidiaries provide wastewater services in ten states. Revenues from these services increased by $4.7 million, or 6.0%, to $82.8 million for the year ended December 31, 2013, from the same period of 2012. The increase was primarily attributable to rate increases in our Pennsylvania subsidiary as well as the Dale acquisition in November, 2013.

Other revenues—Other revenues, which includes such items as reconnection charges, initial application service fees, certain rental revenues, revenue collection services for others and similar items, increased $3.5 million, or 8.2%, compared to the year ended December 31, 2012. The increase in revenues for the year ended December 31, 2013, as compared to the same period in the prior year, was mainly due to the additional surcharge revenues offset by decreases in revenues related to billings for others, reconnection and late fees.

Operation and maintenance. Operation and maintenance expense decreased $24.5 million, or 2.2%, for the year ended December 31, 2013, compared to the year ended December 31, 2012. Operation and maintenance expense for 2013 and 2012, by major expense category, was as follows:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 271,181	$ 274,775	$ (3,594)	(1.3%)
Employee-related costs	455,690	472,075	(16,385)	(3.5%)
Operating supplies and services	215,702	210,947	4,755	2.3%
Maintenance materials and supplies	65,853	81,062	(15,209)	(18.8%)
Customer billing and accounting	52,625	49,257	3,368	6.8%
Other	44,393	41,870	2,523	6.0%
Total	$1,105,444	$1,129,986	$(24,542)	(2.2%)

Production costs including fuel and power, purchased water, chemicals and waste disposal costs decreased by $3.6 million, or 1.3%, for 2013 compared to 2012. Production costs by major expense type were as follows:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Purchased water	$111,119	$110,173	$ 946	0.9%
Fuel and power	86,337	89,282	(2,945)	(3.3%)
Chemicals	47,901	49,334	(1,433)	(2.9%)
Waste disposal	25,824	25,986	(162)	(0.6%)
Total	$271,181	$274,775	$(3,594)	(1.3%)

Overall, production costs decreased for the year ended December 31, 2013 compared to the prior year as a result of reductions in chemical and fuel and power costs resulting from decreased usage mainly attributable to lower consumption in most of our states.

Employee-related costs including salaries and wages, group insurance, and pension expense decreased $16.4 million, or 3.5%, for 2013 compared to 2012. These employee-related costs represented 41.2% and 41.8% of operation and maintenance expense for 2013 and 2012, respectively, and include the categories shown in the following table:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Salaries and wages	$323,022	$326,370	$ (3,348)	(1.0%)
Pensions	48,374	56,299	(7,925)	(14.1%)
Group insurance	65,872	71,103	(5,231)	(7.4%)
Other benefits	18,422	18,303	119	0.7%
Total	$455,690	$472,075	$(16,385)	(3.5%)

The overall decrease in employee-related costs was primarily attributable to decreased salaries and wages, group insurance and pension expense. The decrease in salaries and wages was mainly the result of lower employee incentive and stock compensation expense of approximately $5.9 million in addition to higher capitalization rates, due to increased capital investment, and a reduction in headcount partially offset by increased overtime and annual wage increases. The decrease in pension expense was primarily due to decreased contributions in certain of our regulated operating companies whose costs are recovered based on our funding policy, which is to fund at least the greater of the minimum amount required by the Employee Retirement Income Security Act of 1974 or the normal cost. The reduction in group insurance expense is mainly attributable to higher capitalization rates and reduced headcount.

Operating supplies and services include expenses for office operation, legal and other professional services, including transportation expenses, information systems rental charges and other office equipment rental charges. Overall, these costs increased $4.8 million, or 2.3%, for the year ended December 31, 2013 compared to the same period in 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Contracted services	$ 93,744	$ 87,675	$ 6,069	6.9%
Office supplies and services	45,272	49,354	(4,082)	(8.3%)
Transportation	20,620	22,917	(2,297)	(10.0%)
Rents	15,830	16,943	(1,113)	(6.6%)
Other	40,236	34,058	6,178	18.1%
Total	$215,702	$210,947	$ 4,755	2.3%

The overall increase in operating supplies and services was primarily due to increased contracted services and higher other operating supplies and services. These increases were mainly due to incremental costs attributable to the continued maturity of our Enterprise Resource Planning system in conjunction with the implementation of Phase I and Phase II of our business transformation project. Additionally, contracted services increased due to the use of contractors for other specific projects. Other increases in the other operating supplies and services costs are related to a $1.3 million increase in condemnation costs and a $1.2 million increase in conservation expense as well as the inclusion in 2012 of a $1.0 million reduction in anticipated insurance recovery of expenses incurred as a result of Hurricane Sandy and a $2.1 million credit adjustment resulting from the finalization of rate decisions in California and are offset by $1.6 million of insurance proceeds related to recovery of expenses related to Hurricanes Irene and Sandy received in 2013. The decrease in office supplies and services is due to cost containment efforts primarily related to employee travel. Transportation costs decreased due to the reduction of leased vehicles.

Maintenance materials and services, which includes emergency repair as well as costs for preventive maintenance, decreased $15.2 million, or 18.8%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Maintenance materials and supplies	$65,853	$81,062	$(15,209)	(18.8%)

The decrease of $15.2 million in 2013 is mainly attributable to 2012 including increased preventive maintenance expenses throughout our regulated subsidiaries, including hydrant and tank painting, meter testing, pump, tank and well maintenance, and paving costs.

Customer billing and accounting expenses increased by $3.4 million, or 6.8%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
		(Dollars in thousands)		
Uncollectible accounts expense	$26,443	$22,541	$3,902	17.3%
Postage	12,757	12,694	63	0.5%
Other	13,425	14,022	(597)	(4.3%)
Total	$52,625	$49,257	$3,368	6.8%

The increase in the uncollectible accounts expense was primarily due to an increase in our Regulated Businesses' customer accounts receivable attributable to rate increases and an increase in the overall aging of receivables due to our CIS implementation.

Other operation and maintenance expenses include casualty and liability insurance premiums and regulatory costs. These costs increased by $2.5 million, or 6.0%, for 2013 compared to 2012.

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
		(Dollars in thousands)		
Insurance	$35,406	$31,883	$ 3,523	11.0%
Regulatory expenses	8,987	9,987	(1,000)	(10.0%)
Total	$44,393	$41,870	$ 2,523	6.0%

Insurance costs in 2013 were higher, compared to 2012, primarily due to higher casualty insurance costs as a result of historical claims experience and retroactive adjustments.

Operating expenses. The increase in operating expenses for the year ended December 31, 2013 is primarily due to the higher O&M expenses as explained above, as well as higher depreciation and amortization expense of $26.3 million and higher general tax expense of $12.4 million. The increase in depreciation and amortization is primarily due to additional utility plant placed in service, including $10.8 million of incremental expense resulting from the assets placed in service for our business transformation project. The increase in general tax expense is primarily due to higher property taxes in our New York subsidiary due to a full year of expense in 2013 on properties acquired in the second quarter of 2012 of $5.2 million, the inclusion of property tax adjustments that reduced expense for our Indiana and Missouri subsidiaries by $4.0 million in 2012, and higher 2013 gross receipts taxes in our New Jersey subsidiary of $3.5 million.

Market-Based Operations Segment

The following table provides certain financial information for our Market-Based Operations segment for the periods indicated:

	For the Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Operating revenues	$354,679	$302,541	$307,366
Operation and maintenance expense	289,395	240,610	256,268
Operating expenses, net	299,549	252,302	266,005
Income from continuing operations before income taxes	57,539	53,104	44,948

Comparison of Results of Operations for the Years Ended December 31, 2014 and 2013

Operating revenues. The increase in revenues for the year ended December 31, 2014, compared to the same period in 2013, is primarily attributable to incremental Military Service Group revenues of $39.4 million mainly from an increase in construction project activities for our military contracts and an increase in our Homeowners Services Group ("HOS") revenues of approximately $16.2 million principally the result of contract growth, mainly though our New York City contracts, as well as expansion into other geographic areas and price increases for certain existing customers. Partially offsetting these increases was a reduction of our Contract Operations Group (ConOp) revenues attributable to the termination of certain municipal and industrial operations and maintenance contracts. Additionally, included in the 2013 Military Service Group revenues was $5.4 million in retroactive price redeterminations for several of our military contracts.

Operation and Maintenance. Operation and maintenance expense increased $48.8 million, or 20.3%, for the year ended December 31, 2014, compared to the year ended December 31, 2013.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the Years Ended December 31,			
	2014	2013	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 34,691	$ 36,753	$ (2,062)	(5.6%)
Employee-related costs	62,201	60,392	1,809	3.0%
Operating supplies and services	138,531	97,887	40,644	41.5%
Maintenance materials and supplies	47,324	41,107	6,217	15.1%
Other	6,648	4,471	2,177	48.7%
Total	$289,395	$240,610	$48,785	20.3%

As noted in the table above, the primary factor contributing to the overall increase was an increase in operating supplies and services. This increase is mainly attributable to the increase in construction project activities under our military contracts and corresponds with the incremental revenues. Another factor contributing to this increase was the inclusion in 2013 of the release of $3.8 million in loss contract reserves due to the resolution of certain outstanding issues and uncertainties. Maintenance materials and supplies increased primarily due to higher HOS repair costs, which is attributable to the increase in the number of contracts.

Operating expense. The increase in operating expenses for the year ended December 31, 2014 is primarily driven by the increase in operation and maintenance expense explained above.

Comparison of Results of Operations for the Years Ended December 31, 2013 and 2012

Operating revenues. Revenues decreased $4.8 million for the year ended December 31, 2013, compared to the same period in 2012, primarily due to lower revenues of $14.4 million resulting from the termination of certain municipal and industrial operations and maintenance contracts, most of which occurred in 2012. Additionally, revenues from construction project activities associated with military construction contracts decreased $8.4 million, due to lower levels of work as compared to the prior year. These decreases were offset by a net increase of $4.0 million from price redeterminations for several of our military contracts as well as an increase of $16.6 million in our HOS revenues associated with contract growth, most notably in New York City.

Operation and maintenance. Operation and maintenance expense decreased $15.7 million, or 6.1%, for the year ended December 31, 2013, compared to the year ended December 31, 2012.

The following table provides information regarding categories of operation and maintenance expense for the periods indicated:

	For the Years Ended December 31,			
	2013	2012	Increase (Decrease)	Percentage
	(Dollars in thousands)			
Production costs	$ 36,753	$ 42,153	$ (5,400)	(12.8%)
Employee-related costs	60,392	64,711	(4,319)	(6.7%)
Operating supplies and services	97,887	105,082	(7,195)	(6.8%)
Maintenance materials and supplies	41,107	36,135	4,972	13.8%
Other	4,471	8,188	(3,717)	(45.4%)
Total	$240,610	$256,269	$(15,659)	(6.1%)

As noted in the table above, decreases in operating supplies and services, production costs and employee-related costs were partially offset by an increase in maintenance materials and supplies. The decrease in production costs and employee-related costs is mostly due to the termination of certain municipal and industrial operations and maintenance contracts. The decrease in operating supplies and services is attributable to the release of $3.8 million in loss contract reserves due to the resolution of certain outstanding issues and uncertainties. Additionally, 2013 was impacted by decreased construction project activity for our military contracts and is partially offset by increased HOS contracted services expense as well as higher printing and postage costs associated with expanding into new markets, including New York City. The increase in maintenance materials and supplies is primarily due to higher HOS repair costs, which is attributable to new contracts, an increase in the number of claims, as well as the average cost per claim and is partially offset by the terminated municipal and industrial operations and maintenance contracts. The decrease in the other category is mainly due to decreases in uncollectible accounts expense of $3.5 million, which is due to 2012 including incremental amounts related to terminated contracts in addition to improved collection experience in 2013 for certain other municipal and industrial operations and maintenance contracts.

Operating expense. The decrease in operating expenses for the year ended December 31, 2013 is primarily driven by the decrease in operation and maintenance expense, which is explained above.

Liquidity and Capital Resources

We regularly evaluate cash requirements for current operations, commitments, development activities and capital expenditures. Our business is very capital intensive and requires significant capital resources. A majority of these capital resources are provided by internally generated cash flows from operations. When necessary, we obtain additional funds from external sources in the debt and equity capital markets and through bank borrowings. Our access to external financing on reasonable terms depends on our credit ratings and current business conditions, including that of the water utility industry in general, as well as conditions in the debt or equity capital markets. If these business and market conditions deteriorate to the extent that we no longer have access to the capital markets at reasonable terms, we have access to an unsecured revolving credit facility with aggregate bank commitments of $1.25 billion. We rely on this revolving credit facility and the capital markets to fulfill our short-term liquidity needs, to issue letters of credit and to support our commercial paper program. Disruptions in the credit markets may discourage lenders from extending the terms of such commitments or agreeing to new commitments. Market disruptions may also limit our ability to issue debt and equity securities in the capital markets. See "—Credit Facility and Short-Term Debt." In order to meet our short-term liquidity needs, we, through AWCC, our financing subsidiary, issue commercial paper, which is supported by the revolving credit facility. AWCC had no outstanding borrowings and $38.0 million of outstanding letters of credit under its credit facility as of December 31, 2014. As of December 31, 2014, AWCC had $1.25 billion available under the credit facility that we could use to fulfill our short-term liquidity needs, to issue letters of credit and support our $450.0 million outstanding commercial paper. We can provide no assurances that our lenders will meet their existing commitments or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

In addition, our regulated operating companies receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods, which vary according to state regulations, as new customers begin to receive service or other contractual obligations are fulfilled. Amounts which are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from the rate base. Generally, we depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Some of our subsidiaries do not depreciate contributed property, based on regulatory guidelines.

We use our capital resources, including cash, to (i) fund operating and capital requirements, including construction expenditures, (ii) pay off maturing debt, (iii) pay dividends, (iv) fund pension and postretirement welfare obligations and (v) invest in new and existing ventures. We spend a significant amount of cash on construction projects that we expect to have a long-term return on investment. Additionally, we operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as our recovery is subject to regulatory lag. See "Business—Regulation—Economic Regulation." We expect to fund future maturities of long-term debt through a combination of external debt and to the extent available cash flows from operations. Since we continue to make investments equal to or greater than our cash flows from operating activities, we have no plans to reduce debt significantly.

We believe that our ability to access the capital markets, our revolving credit facility and our cash flows from operations will generate sufficient cash to fund our short-term requirements. We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and to the extent necessary, our revolving credit facility. We believe we have sufficient liquidity and ability to manage our expenditures should there be a disruption of the capital and credit markets.

In addition, the Company can delay major capital investments or other funding requirements or pursue financing from other sources to preserve liquidity, if necessary. The Company believes it can rely upon cash flows from operations to meet its obligations and fund its minimum required capital investments for an extended period of time.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the third quarter of each fiscal year. Our future cash flows from operating activities will be affected by, among other things, economic utility regulation; infrastructure investment; inflation; compliance with environmental, health and safety standards; production costs; customer growth; declining per customer usage of water; weather and seasonality; and overall economic conditions.

Cash flows from operating activities have been a reliable, steady source of funding, sufficient to meet operating requirements, make our dividend payments and fund a portion of our capital expenditure requirements. We will seek access to debt and equity capital markets to meet the balance of our capital expenditure requirements as needed. There can be no assurance that we will be able to access such markets successfully on favorable terms or at all. Operating cash flows can be negatively affected by changes in our rate regulated environments or changes in our customers' economic outlook and ability to pay for service in a timely manner. We can provide no assurance that our customers' historical payment pattern will continue in the future.

The following table provides a summary of the major items affecting our cash flows from operating activities for the periods indicated:

	Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Net income	$ 423,108	$ 369,264	$ 358,070
Add (subtract):			
Non-cash activities (1)	722,871	761,772	688,126
Changes in working capital (2)	3,503	(137,374)	38,812
Pension and postretirement healthcare contributions	(52,195)	(97,500)	(129,410)
Net cash flows provided by operations	$1,097,287	$ 896,162	$ 955,598

(1) Includes depreciation and amortization, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on accounts receivable, allowance for other funds used during construction, (gain) loss on asset dispositions and purchases, pension and non-pension postretirement benefits expense, stock-based compensation expense and other non-cash items. Details of each component can be found in the Consolidated Statements of Cash Flows.

(2) Changes in working capital include changes to receivables and unbilled revenues, taxes receivable (including income taxes), other current assets, accounts payable, taxes accrued (including income taxes), interest accrued, change in book overdraft and other current liabilities.

Our working capital needs are primarily limited to funding the increase in our customer accounts receivable and unbilled revenues which is mainly associated with the revenue increase as a result of rate increases in our Regulated Businesses. We address the timing issue through the aforementioned liquidity funding mechanisms.

The increase in cash flows from operations for the year ended December 31, 2014 compared to the same period in 2013 is principally due to the improvement in the cash collections of our Regulated Businesses' accounts receivable, some of which were unbilled at December 31, 2013. Cash collections in 2013 for our Regulated Businesses' accounts receivable were slower than historical payment patterns, mainly due to the implementation of our CIS system in May 2013. We believe the slowdown in collections is the result of the system implementation and therefore is temporary in nature. We implemented the CIS system in our remaining Regulated Businesses in October 2013 and we have experienced a similar slowdown in cash collections for these operating companies in 2014.

The decrease in cash flows from operations for the year ended December 31, 2013 compared to the same period in 2012 is principally due to changes in working capital, which is related to the aforementioned delays in billing and slower collections in our accounts receivable in our Regulated Businesses and the change in payables in 2013, as we were delayed in 2012 in executing payables at normal volumes due to the implementation of Phase I of our business transformation project. Partially offsetting these working capital decreases was a reduction in the pension and postretirement healthcare contributions in 2013.

The Company expects to make pension and postretirement benefit contributions to the plan trusts of $54.5 million in 2015, of which $6.1 million was already made in 2015. In addition, we estimate that contributions will amount to $55.6 million in 2016, $52.7 million in 2017, $56.7 million in 2018 and $66.3 million in 2019. Actual amounts contributed could change materially from these estimates as a result of changes in assumptions and actual investment returns.

Cash Flows from Investing Activities

Cash flows used in investing activities were as follows for the periods indicated:

	Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Net capital expenditures	$ (956,119)	$ (980,252)	$(928,574)
Proceeds from sale of assets and securities	13,841	918	561,739
Acquisitions	(8,935)	(23,658)	(44,560)
Other investing activities, net (1)	(62,776)	(50,302)	29,039
Net cash flows used in investing activities	$(1,013,989)	$(1,053,294)	$(382,356)

(1) Includes removal costs from property, plant and equipment retirements, net and net funds released.

Cash flows used in investing activities increased in 2014 compared to 2013 primarily due to an increase in our capital expenditures for the year ended December 31, 2014 principally as a result of incremental spending associated with the replacement of our transmission and distribution infrastructure.

Our infrastructure investment plan consists of both infrastructure renewal programs, where we replace infrastructure as needed, and major capital investment projects, where we construct new water and wastewater treatment and delivery facilities to meet new customer growth and water quality regulations. Our projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors.

While capital expenditures were $956.1 million, total capital investment amounted to $1.0 billion. The following table provides a summary of our historical capital expenditures related to upgrading our infrastructure and systems:

	For the Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Transmission and distribution	$462,706	$435,449	$343,640
Treatment and pumping	96,535	89,278	138,072
Services, meter and fire hydrants	170,470	178,412	171,855
General structures and equipment	142,193	131,446	104,854
Business transformation project	8,379	59,746	107,049
Sources of supply	30,916	50,013	44,602
Wastewater	44,920	35,908	18,502
Total capital expenditures	$956,119	$980,252	$928,574

Capital expenditures for the year ended December 31, 2014, decreased by $24.1 million or 2.5% compared to 2013, principally due to the completion of Phase I and Phase II of our business transformation project.

Capital expenditures for the year ended December 31, 2013, increased by $51.7 million or 5.6% compared to 2012, principally due to our continued replacement of transmission and distribution infrastructure, rehabilitation to storage facilities and dam rehabilitation and increased expenditures related to information systems, and vehicles. Partially offsetting this increase was reduction in treatment and pumping expenditures due to the completion of certain water treatment plant projects in 2012 as well as a reduction in our business transformation expenses also due to completion of Phase I of the project in 2012 and the implementation of a portion of Phase II in May 2013.

One avenue to seek growth is through tuck-ins, by helping commissions with troubled water systems as well as other acquisitions that are complementary to our existing business and support the continued geographical diversification and growth of our operations. Generally, acquisitions are funded initially with short-term debt and later refinanced with the proceeds from long-term debt or equity offerings.

The following provides a summary of the acquisitions and dispositions affecting our cash flows from investing activities in the years indicated:

2014:

We paid approximately $8.9 million for 13 water and wastewater systems.

We received approximately $1.9 million for the sale of assets and securities.

2013:

We paid approximately $23.7 million for ten water and five wastewater system. These acquisitions added approximately 30,000 customers to our existing regulated footprint. The largest of these acquisitions was the acquisition of the stock of a wastewater system in Virginia with approximately 20,000 customers in November 2013 for a purchase price of $5.1 million (net of cash acquired of $6.9 million) plus assumed liabilities.

We received approximately $0.9 million for the sale of assets and securities.

2012:

We paid approximately $44.6 million for numerous regulated water and wastewater systems in New York, Pennsylvania, Indiana, Missouri and West Virginia, with the largest associated with the acquisition of seven regulated water systems in New York in May 2012 for a purchase price of $36.7 million plus assumed liabilities.

We received approximately $561.7 million from the sale of our assets and securities, including $458.9 million associated with the sale of our Arizona, New Mexico and Ohio regulated subsidiaries.

As previously noted, in 2015, we estimate that our total capital plan is $1.2 billion with approximately $1.1 billion allocated to upgrading our infrastructure and systems, including infrastructure renewal programs and construction of facilities to meet environmental requirements and new customer growth, and $0.1 billion for acquisitions and strategic investment purposes. For years in the foreseeable future beyond 2015, we estimate such investment will be between $1.1 and $1.2 billion per year.

We intend to invest capital prudently to provide essential services to our regulated customer base, while working with regulators in the various states in which we operate to have the opportunity to earn an appropriate rate of return on our investment and a return of our investment.

Our investing activities could require considerable capital resources which we have generated through operations and attained through financing activities. We can provide no assurances that these resources will be sufficient to meet our expected investment needs and may be required to delay or reevaluate our investment plans.

Cash Flows from Financing Activities

Our financing activities, primarily focused on funding construction expenditures, include the issuance of long-term and short-term debt, primarily through AWCC. We intend to access capital markets on a regular basis, subject to market conditions. In addition, new infrastructure may be funded with customer advances and contributions for construction (net of refunds). This amounted to $26.3 million, $19.3 million and $31.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. As previously noted AWCC is a wholly-owned finance subsidiary of the Company. Based on the needs of our regulated subsidiaries and the Company, AWCC borrows in the capital markets and then, through intercompany loans, provides those borrowings to the regulated subsidiaries and the Company. The regulated subsidiaries and the Company are obligated to pay their portion of the respective principal and interest to AWCC in the amount necessary to enable AWCC to meet its debt service obligations. Because the Company's borrowings are not a source of capital for the regulated subsidiaries, the Company is not able to recover the interest charges on the Company's debt through regulated water and wastewater rates. As of December 31, 2014, AWCC has made long-term fixed rate loans and commercial paper loans to our Regulated Businesses amounting to $3.0 billion and $319.2 million, respectively. Additionally, as of December 31, 2014, AWCC has made long-term fixed rate loans and commercial paper loans to the Company totaling $979.9 million and $130.8 million to the Company, respectively.

On May 4, 2012, we and AWCC filed a universal shelf registration statement that enabled us to offer and sell from time to time various types of securities, including common stock, preferred stock and debt securities, all subject to market demand and ratings status. During 2014, 2013 and 2012, $500 million, $400 million and $300 million, respectively, of debt securities were issued pursuant to this registration statement.

The following long-term debt was issued in 2014:

Company	Type	Rate	Maturity	Amount
AWCC (1)	Senior notes—fixed rate	3.40%-4.30%	2025-2042	$500,000
Other subsidiaries (2)	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2031-2033	10,474
Total issuances				$510,474

(1) On August 14, 2014, AWCC closed on senior fixed rate notes. Proceeds from this issuance were used to refinance commercial paper borrowings and to finance redemptions of long-term debt.
(2) Proceeds from the above issuance were received in 2014 and have been utilized to fund certain specific projects. $10.0 million of these proceeds are held in trust pending our certification that we have incurred qualifying capital expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the trust are reflected as the release of restricted funds and are included in the investing activities in the Consolidated Statements of Cash Flows.

In addition to the above issuances, we also assumed $1.7 million of debt as a result of acquisitions in 2014.

The following long-term debt was retired through optional redemption or payment at maturity during 2014:

Company	Type	Rate	Maturity	Amount
AWCC	Private activity bonds and government funded debt—fixed rate	6.00%-6.75%	2018-2032	$101,085
AWCC	Senior notes—fixed rate	6.00%	2039	59,561
Other subsidiaries (1)	Private activity bonds and government funded debt—fixed rate	0.00%-5.25%	2014-2041	78,718
Other subsidiaries	Mandatorily redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other subsidiaries	Capital lease payments			28
Total retirements and redemptions				$241,042

(1) Includes $1.0 million of non-cash redemptions resulting from the use of restricted funds.

The following long-term debt was issued in 2013:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
AWCC (1)	Senior notes—fixed rate	3.85%	2024	$400,000
AWCC (2)	Private activity bonds and government funded debt—fixed rate	2.30%-2.90%	2021-2030	8,122
Other subsidiaries (3)	Private activity bonds and government funded debt—fixed rate	1.59%-2.41%	2031-2033	2,737
Total issuances				$410,859

(1) On November 20, 2013, AWCC closed on 3.85% senior fixed rate notes offering. Proceeds from the offering were used to refinance commercial paper borrowings.

(2) Proceeds from the above issuance were received in the fourth quarter of 2013 and have been utilized to fund certain specific projects. $6.7 million of these proceeds are held in trust pending our certification that we have incurred qualifying capital expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the trust are reflected as the release of restricted funds and are included in the investing activities in the Consolidated Statements of Cash Flows.

(3) Proceeds from the above issuances were received from Pennsylvania Infrastructure Investment Authority ("PennVest") and have been used to fund certain projects.

In addition to the above issuances, we also assumed $12.7 million of debt as a result of acquisitions in 2013, of which $12.5 million is the result of our Dale Service Corporation stock acquisition in the fourth quarter of 2013.

The following long-term debt was retired through optional redemption or payment at maturity during 2013:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
AWCC (1)	Senior notes—fixed rate	5.39%-10.00%	2013-2017	$476,638
Other subsidiaries (2)	Private activity bonds and government funded debt—fixed rate	0.00% -5.50%	2013-2041	17,663
Other subsidiaries	Mortgage bonds—fixed rate	6.59%	2013	2,000
Other subsidiaries	Mandatory redeemable preferred stock	8.49%-9.18%	2031-2036	1,650
Other	Capital leases & other			359
Total retirements & redemptions				$498,310

(1) On October 8, 2013, we announced the purchase and retirement through a tender offer of $225.8 million in aggregate outstanding principal amount of our 6.08% Senior Notes due 2017. On October 8, 2013, we paid $271.8 million to effect the tender, which, in addition to the principal, included a repurchase premium of $39.4 million and accrued interest of $6.6 million. Also, in October 2013 and related to the tender, we recorded transaction fees of $0.7 million and a write-off of $0.5 million for unamortized debt issuance costs. The redemption was originally financed through commercial paper borrowing.

(2) Includes a $3.6 million of non-cash redemptions resulting from the use of restricted funds.

On November 1, 2013, we issued notices of redemption for $74.8 million and $75.0 million of outstanding Senior Notes with an original maturity date of 2038 and interest rates of 8.25% and 10.0%, respectively. These notes were retired on December 1, 2013.

Also on December 21, 2013, an additional $101.0 million with an interest rate of 5.39% in Senior Notes matured.

The following long-term debt was issued in 2012:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
AWCC [1]	Senior notes—fixed rate	4.30%	2042	$300,000
Other subsidiaries [2] ...	Private activity bonds and government funded debt—fixed rate	0.00%-5.00%	2025-2041	68,746
Other subsidiaries [3] ...	Private activity bonds and government funded debt—fixed rate	1.00%-2.76%	2025-2041	14,730
Other subsidiaries	Mortgage bonds—fixed rate	4.29%	2022	700
Total issuances				$384,176

(1) The net proceeds from this issuance were used to finance certain redemptions of long-term debt and to fund the repayment of short-term debt.
(2) Proceeds from these issuances were received from New Jersey Environmental Infrastructure Trust and will be used to fund certain specific projects. The proceeds are held in trust pending our certification that we have incurred qualifying expenditures. These issuances have been presented as non-cash on the Consolidated Statements of Cash Flows. Subsequent releases of all or a lesser portion of the funds by the Trust are reflected as the release of restricted funds and are included in investing activities in the Consolidated Statements of Cash Flows.
(3) Proceeds from these issuances were received from the Pennsylvania Infrastructure Investment Authority and have been used to fund specified projects.

Also, in the second quarter of 2012, and in connection with the acquisition of our additional subsidiaries in New York, we assumed debt of $25.2 million with coupon rates of 5.00% to 6.00% and maturity dates ranging from 2015 to 2035. In September 2012, we redeemed $10.9 million of these outstanding bonds with original maturity dates of 2031 to 2035 and interest rates ranging from 5.00% to 6.00%.

The following long-term debt was retired through optional redemption or payment at maturity during 2012:

Company	Type	Interest Rate	Maturity	Amount (In thousands)
AWCC	Senior notes—fixed rate	8.25%	2038	$ 10
Other subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-9.60%	2012-2041	447,325
Other subsidiaries	Mortgage bonds—fixed rate	6.85%-7.95%	2012	24,200
Other subsidiaries	Mandatory redeemable preferred stock	4.60%-9.18%	2013-2036	1,549
Other	Capital leases & other			419
Total retirements & redemptions				$473,503

Included in the long-term debt redemptions/retirements is $4.2 million related to our previously held Ohio subsidiary, which was classified in discontinued operations prior to its divestiture.

From time to time and as market conditions warrant, we may engage in long-term debt retirements via tender offers, open market repurchases or other viable alternatives to strengthen our balance sheets.

In February 2015, our Board of Directors authorized a common stock repurchase program for the specific purpose of providing a vehicle to minimize share dilution that occurs through its dividend reinvestment, employee stock purchase and executive compensation programs. This program will allow the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time to manage dilution. Under the program, the Company may repurchase its common stock in the open market or through privately negotiated transactions. The program will be conducted in accordance with Rule 10b-18 of the Exchange Act, as amended, and to facilitate the purchases, the Company has also entered into with a broker a Rule 10b5-1 share repurchase plan. By having the Program administered through a Rule 10b5-1 plan, the Company will be able to repurchase its shares at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the Program or the Rule 10b5-1 parameters at its discretion.

Credit Facility and Short-Term Debt

The short-term debt balance, consisting of commercial paper, net of discount, amounted to $450.0 million and $630.3 million at December 31, 2014 and 2013, respectively.

AWCC has entered into an unsecured revolving credit facility with $1.25 billion in aggregate total commitments from a diversified group of 14 banks with $70.0 million maturing on October 2017 and the remainder, $1.18 billion, maturing on October 2018. Interest rates on advances under the facility are based on a credit spread to the Eurodollar rate or base rate with the credit spread of 1.00% through June 2012 and then based on the higher of AWCC's Moody's Investors Service, which we refer to as Moody's, or Standard & Poor's Ratings Services ratings, which we refer to as S&P, credit rating. At current ratings that spread would be 1.00%. The facility will be principally used to support AWCC's commercial paper program and to provide up to $150.0 million in letters of credit.

We closely monitor events in the financial markets and the financial institutions associated with this credit facility. In accordance with the credit agreement, no financial institution can have more than $250.0 million of the aggregate commitment through the facility expiration date. If any lender defaults in its obligation to fund advances, the Company may request the other lenders to assume the defaulting lender's commitment or replace such defaulting lender by designating an assignee willing to assume the commitment. However, the remaining lenders have no obligation to assume a defaulting lender's commitment and we can provide no assurances that we will be able to replace a defaulting lender.

The following table provides information as of December 31, 2014 and 2013, regarding the respective credit facility in effect at the time, letters of credit sub-limits and available funds under those revolving credit facilities, as well as outstanding amounts of commercial paper and outstanding borrowings under the respective facilities:

	Credit Facility Commitment	Available Credit Facility Capacity	Letter of Credit Sublimit	Available Letter of Credit Capacity	Outstanding Commercial Paper (Net of Discount)	Credit Line Borrowings
	(In thousands)					
December 31, 2014	$1,250,000	$1,212,104	$150,000	$112,104	$449,959	$—
December 31, 2013	$1,250,000	$1,208,215	$150,000	$108,215	$630,307	$—

AWCC had no outstanding borrowings under the credit facility and $36.5 million of outstanding letters of credit under this credit facility as of February 19, 2015. Also, as of February 19, 2015, AWCC had $502.9 million of commercial paper outstanding.

The weighted-average interest rate on short-term borrowings for the years ended December 31, 2014 and 2013 was approximately 0.31% and 0.43%, respectively.

Capital Structure

The following table indicates the percentage of our capitalization represented by the components of our capital structure as of December 31, 2014, 2013 and 2012:

	At December 31, 2014	At December 31, 2013	At December 31, 2012
Total common stockholders' equity	45%	45%	44%
Long-term debt and redeemable preferred stock at redemption value	50%	49%	52%
Short-term debt and current portion of long-term debt	5%	6%	4%
	100%	100%	100%

The changes in the capital structure between periods were mainly attributable to changes in outstanding commercial paper balances.

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we or our subsidiaries may be restricted in our ability to pay dividends, issue new debt or access our revolving credit facility. For two of our smaller operating companies, we have informed our counterparties that we will provide only unaudited financial information at the subsidiary level, which resulted in technical non-compliance with certain of their reporting requirements. We do not believe this change will materially impact us. Our failure to comply with restrictive covenants under our credit facility could accelerate repayment obligations. Our long-term debt indentures contain a number of covenants that, among other things, limit the Company from issuing debt secured by the Company's assets, subject to certain exceptions.

Certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. On December 31, 2014, our ratio was 0.55 to 1.00 and therefore we were in compliance with the covenant.

Security Ratings

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, is directly affected by securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we also issue debt at our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

On June 2, 2014, Standard & Poor's Rating Service revised its rating outlook to positive from stable and affirmed its corporate credit rating of A- on AWCC and American Water and of A2 on AWCC's short term rating. On May 29, 2013, Moody's upgraded its rating outlook for both American Water and AWCC from Baa2 to Baa1 and revised its rating outlook to stable.

The following table shows the Company's securities ratings as of December 31, 2014:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Senior unsecured debt	Baa1	A-
Commercial paper	P2	A2