STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE INDIANA UTILITY REGULATORY COMMISSION'S INVESTIGATION INTO THE IMPACTS OF THE TAX CUTS AND JOBS ACT OF 2017 AND POSSIBLE RATE IMPLICATIONS UNDER PHASE 1 AND PHASE 2 FOR INDIANA AMERICAN WATER COMPANY, INC	))))))	**CAUSE NO. 45032 S4**

OUCC PREFILED TESTIMONY

OF

EDWARD R. KAUFMAN, CRRA - PUBLIC'S EXHIBIT NO. 2

ON BEHALF OF THE

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

June 18, 2018

Respectfully Submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

Tiffany T. Murray, Atty. No. 28916-49
Deputy Consumer Counselor

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing ***Office of Utility Consumer Counselor's Prefiled Testimony of Edward R. Kaufman, CRRA*** has been served upon the following counsel of record in the captioned proceeding by electronic service on June 18, 2018.

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TESTIMONY OF OUCC WITNESS EDWARD R. KAUFMAN, CRRA
CAUSE NO. 45032 S-4
INDIANA AMERICAN WATER COMPANY, INC.

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Edward R. Kaufman, and my business address is 115 W. Washington St., Suite 1500 South, Indianapolis, IN 46204

Q: By whom are you employed and in what capacity?

A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as the Water-Wastewater Division Assistant Director. My qualifications and experience are set forth in Appendix A.

Q: Please describe the review and analysis you conducted to prepare your testimony.

A: I reviewed the direct testimony, workpapers, and discovery responses presented by Indiana American Water Company, Inc. ("Indiana American" or "Respondent") related to its proposal in Phase 1 of this subdocket addressing the reduction of embedded income tax expense in current customer rates and charges. I also reviewed press releases and investor presentations stored on American Water Works Investor Relations web site.

Q: What is Indiana American requesting in this subdocket?

A: The Indiana Utility Regulatory Commission ("Commission") initiated this investigation to consider the impacts and resulting benefits from Tax Cuts and Jobs Act of 2017 ("TCJA") and how any resulting benefit should be realized by customers. Rather than propose rates that reflected the entire decrease in tax burden, Indiana

American requests Commission approval to *phase-in* the effects of the TCJA on the income tax expense reflected in its current rates and charges. Indiana American proposes to reduce its base rates such that 62.5% of the income tax reduction is reflected immediately upon issuance of an order, which it estimates to be approximately September 1, 2018. Indiana American further proposes that the remaining 37.5% tax reduction is reflected upon issuance of an Order in a base rate case it expects to file with the Commission in July 2018. In other words, Indiana American is proposing to defer 37.5% of the rate decrease that is due to its ratepayers from the reduction in income taxes from the TCJA until approximately May 2019. For simplicity's sake, I will refer to Indiana American's proposal as its "Phase 1 Deferral." Moreover, it bears noting that simply by seeking this subdocket, Indiana American has effectively deferred 100% of the rate decrease that is due its ratepayers from the reduction in income taxes until an order is issued in this Cause.

Q: What is the purpose of your testimony?

A: My testimony explains that Respondent's proposed Phase 1 Deferral in this subdocket is both unusual and unnecessary. While Mr. Watkins asserts the TCJA may exacerbate the cost of external capital for public utilities, Mr. Watkins has not provided testimony that explains how American Water or Indiana American are affected by the law. Moreover, to the extent Mr. Watsons' stated concerns are real and that they materially apply to Indiana American, deferring the rate decrease customers should realize is neither the only nor the best solution to address these concerns.

Furthermore, Indiana American does not provide meaningful testimony that its Phase 1 Deferral is in the public interest. While most of Mr. Watkins' testimony discusses the concerns of the TCJA that could take place in both Phase 1 and Phase 2 of the Commission's investigation in this Cause, my testimony focuses only on Respondent's proposed Phase 1 Deferral.

Q: What is the OUCC's position with respect to Phase 1?

A: Indiana American should implement the full decrease to its rates as a result of the TCJA and not defer 32.5% of the Phase 1 decrease until it has received a rate order in its future rate case.

Q: Does your testimony include schedules and attachments?

A: Yes. I list my schedules and attachments in Appendix B

II. RESPONDENT SHOULD IMPLEMENT THE FULL TAX DECREASE

Q: What is the estimated dollar impact of Indiana American's Phase 1 Deferral associated with the TCJA?

A: In response to OUCC Data Request No. 01-01, Indiana American estimated the annual impact of the reduction in the federal income tax rate is $10,544,252[1] (Attachment ERK-1). Indiana American proposes to defer $3,484,969[2] until an order is issued in its next rate case. The monthly impact of Respondent's Phase 1 Deferral is that Indiana American's ratepayers will pay approximately $290,414 more each month ($3,484,969 / 12 = $290,414) compared to reflecting the entire

[1] ($10,544,252 / 12 = $878,687.67 per month)

[2] ($10,544,252 - $7,059,282 = $3,484,969)

benefit of the TCJA. If the deferral is in place for 8 months, then the total cost of the deferral to Indiana American's ratepayers is $2,323,313.[3]

Q: Has Respondent already benefited from its proposed Phase 1 Deferral?

A: Yes. Without this subdocket, this rate reduction should have gone into effect on May 1, 2018. By simply filing for a subdocket, even if its proposal is denied, Indiana American will defer 100% of the rate decrease that is due ratepayers from the reduction in income taxes from the TCJA until an order is issued in this subdocket. Indiana American's ratepayers will have been deprived all of the benefit of the TCJA during this time. As explained above, the annual impact of Indiana American's Phase 1 Deferral is $10,544,252. Because 100% of the $10,544,252 is deferred, the average monthly impact is $878,687.

Q: When do you anticipate Indiana American's customers will receive any benefit of Indiana American's reduced tax rates?

A: While Respondent has estimated an order will be issued in this Cause on or near September 1, 2018, I anticipate it is more likely that an Order will be issued on or near October 1, 2018. Thus any benefits of the rate decrease that are due to ratepayers from the reduction in income taxes from the TCJA are not likely to occur before October 1, 2018. And based on Respondent's response to OUCC Data Request No. 01-01, I estimate that Indiana American will accumulate approximately $4,393,438 (5 months * 878,687.67) in revenues that should have been excluded from its rates starting in May.

[3] For purposes of this calculation, I have assumed an order in this case would be issued by October 1, 2018 and the Commission would issue an order in Indiana American's next rate case by May 1, 2019 (or a difference of eight months).

Q: How would you characterize Indiana American's support for its proposal?

A: Indiana American provides no analysis or testimony that reducing rates to reflect the decrease in the federal income tax rate will have negative cash flow implications specifically for Indiana American Water Company. Instead, Respondent provides vague discussions regarding how the TCJA affects public utilities in general. Depriving ratepayers of a rate reduction caused by the reduction of the income tax rate, a pass-through utility expense, should be considered only when specific harm has been adequately demonstrated.

Moreover, as discussed by OUCC witness Margaret Stull, most of Mr. Watkins' testimony relates to the impact of the TCJA that will take place in Phase 2 of the subdocket and does not relate to the reduction in the federal income tax rate itself.

Q: Does Mr. Watkins provide support for the proposition that immediately reducing Indiana American's rates will reduce Indiana American's internally generated funds, create a demand for greater external capital and exacerbate Indiana American's cost of external capital?

A: No. Mr. Watkins speaks only in terms of public utilities in general. Respondent argues that reducing rates immediately will reduce internally generated funds, create a demand for greater external capital and exacerbate the cost of external capital for <u>public utilities</u>. But Mr. Watkins does not explain or provide support of these consequences for Indiana American. Mr. Watkins does not explain what facts cause Indiana American to be treated differently than the many other Indiana utilities that have allowed their customers to enjoy the economic benefits of the lower taxes secured by the TCJA. More specifically, Mr. Watkins did not provide any analysis that Respondent's Phase 1 Deferral is necessary to alleviate asserted concerns regarding negative cash flow.

Q: Has Respondent conducted any analysis on how its subdocket proposal will affect its credit metrics?

A: No. In OUCC DR No. 01-17 (Attachment ERK-1), the OUCC asked Respondent to:

> Please provide a copy of any analysis Petitioner has conducted to estimate the impact of its proposal in this Phase 1 subdocket on Indiana American's cash flow to debt metrics (as described on page 17 of Mr. Watkins' testimony). If Excel was used, please provide a copy of the Excel spreadsheet with formulas intact.

Respondent replied as follows:

> Indiana American has not conducted an analysis to estimate the impact of its proposal in this Phase 1 subdocket on Indiana American's cash flow to debt metrics (as described on page 17 of Mr. Watkins' testimony). Pages 16 and 17, are referring to a Moody's Report which was attached to the testimony as Attachment JMW-1.

The OUCC also asked Respondent similar questions in OUCC Data Request Nos. 1-13, 14, 15 and 16 (Attachment ERK-1) regarding Indiana American's forecasted FFO / Debt ratios for 2018, 2019 and 2020 and its forecasted interest coverage ratios for 2018, 2019 and 2020. Respondent provided similar answers. Neither in testimony nor through discovery has Respondent provided any analysis explaining how failure to implement its proposed Phase 1 Deferral will cause it harm or negatively impact its credit metrics, thus justifying the basis to grant its proposal. Respondent has also failed to provide any analysis that its proposed Phase 1 Deferral is necessary to address these concerns.

Q: Why else do you believe Respondent's proposed relief is unnecessary and inappropriate?

A: American Water Company's own press releases as well as analyst research describe American Water as being in good health. The recent press releases issued by Indiana American's parent, American Water, describe a company in sound financial health. On May 2, 2018, American Water issued a press release titled "American Water Reports First Quarter 2018 Results," proclaiming on the first page "We are off to a strong start this year with first quarter 2018 earnings per share up 13.5 percent compared to last year." The press release added "In the first quarter of 2018, net income from the Regulated Businesses was $104 million, compared to $94 million for the same period in 2017." (*See* Attachment ERK – 3, pages 1-2.)

Also, Value Line's recent one page report on American Water was positive, stating that "American Water Works' earnings and dividend growth prospects remain the most attractive in the water utility sector." (*See* Attachment ERK-5.) The report added "Even with the higher reliance on debt, however, American Water's finances should be adequate." American Water's June, 2018 presentation to investors (page 3) stated "Long-term growth expected in top half of 7-10%* target EPS CAGR guidance through 2022 including Pivotal acquisition and tax reform." (emphasis added). The presentation also noted a "'A/A3' credit rating with strong balance sheet."

Moreover, both Indiana American and American Water Works are actively pursuing acquisitions. Indiana American has pending purchases for the water assets from Charlestown ($13.4 million), Lake Station ($20.4 million), and Sheridan ($10.9 million – including wastewater assets). American Water projects to spend

$600 million to $1.2 billion in capital expenditures for regulated acquisitions over the next five years (Attachment ERK 4, page 3). An aggressive acquisition policy is not consistent with a company that is concerned about negative cash flows.

Mr. Watkins does not deny that the federal income tax has gone down to 21% and that Indiana American's rates must be reduced as a result. But his testimony (See page 14 and 15) also alleges "strain" on "much-needed" cash flows. The tone of Mr. Watkins' testimony simply does not match up with these external releases and reports that do not reflect the same level of concern over Indiana American's financial health and credit security.

Q: If reducing base rates to reflect the new 21% corporate income tax rate were materially harmful to Respondent's credit metrics, what other actions besides deferring a rate reduction to its captive ratepayers could Respondent undertake to mitigate such harm?

A: While Respondent expresses concerns about a reduced cash flow that would be alleviated by its Phase I Deferral and quotes from a Moody's report arguing that the TCJA will put downward pressure on American Water Works' ("AWK") credit metrics, on April 20th, 2018, American Water announced it had increased its quarterly dividend by almost 10.0%.[4] The cost of AWK's increase in dividends is more than $28.5 million per year.[5]

AWK's proposal to increase dividends by almost 10% demonstrates AWK can afford a large increase to shareholders and that AWK is not worried about

[4] Specifically, American Water increased its quarterly dividends from 41.5 cents per share to 45.5 cents per share (4 cents per share on a quarterly basis or 16 cents per share on an annual basis). (Attachments ERK 2, 3, 4, and, 5).

[5] According to Value Line (Attachment ERK 5), American Water had approximately 178.44 million shares of common stock in 2017.

downward pressure on credit metrics caused by the TCJA and any material increase in its cost of capital. In its April 20, 2018 press release, American Water stated as follows (Attachment ERK 2).

> American Water is committed to all of our stakeholders—shareholders, customers, employees and communities. We continue to pay dividends to our owners that are aligned with our financial performance, while at the same time continue robust investment in our systems to ensure clean, safe, reliable and affordable water services for our customers and communities," said Susan Story, president and CEO of American Water.

As AWK increases its dividends, Indiana American will likely be called upon to increase the dividends it pays to AWK. Making increased dividend payments to AWK also puts downward pressure on Indiana American's credit metrics. And yet, Indiana American seeks corrective action in this Cause that results in refunding less than what ratepayers are owed to help stabilize its credit metrics in response to the TCJA. Indiana American has the responsibility of taking appropriate internal steps, such as a smaller dividend increase, before it subjects its ratepayers to higher rates by deferring rate reductions that should take place as a result of a lower federal tax expense.

III. <u>CONCLUSION</u>

Q: Please summarize your testimony.

A: While Respondent expresses concern about how the TCJA exacerbates the cost of external capital, it has not provided or even conducted any specific company analysis that shows how its proposed relief in this subdocket is necessary to mitigate its expressed concerns. In fact, most of Respondent's testimony is devoted to concerns that relate to Phase 2 and high level observations about the impact of the

TCJA on the entire utility industry. Moreover, rather than taking internal action to mitigate any concern about the effect of the TCJA, Respondent's parent company has increased its annual dividends by almost 10.0%. Finally, by simply initiating this subdocket, Respondent will accrue approximating $4.4 million in deferred cash flow benefits (even if its proposal is denied), while it proposes to defer an additional $2.3 million in cash flow benefits. Indiana American is asking its ratepayers to bear the burden of unnecessarily high rates without demonstrating that a deferral of the tax refund is necessary and without taking any internal actions to mitigate the alleged harm.

Q: What are your conclusions?

A: Indiana American's expressed concerns about how the TCJA exacerbates the cost of external capital, does not justify deferring a reduction in rates to its ratepayers.

Q: Does this conclude your testimony?

A: Yes.

APPENDIX A

Q: Please describe your educational background and experience.

A: I graduated from Bentley College in Waltham, Massachusetts, with a Bachelor's degree in Economics & Finance and an Associate's degree in Accounting. Before attending graduate school, I worked as an escheatable property accountant at State Street Bank and Trust Company in Boston, Massachusetts. I was awarded a graduate fellowship to attend Purdue University where I earned a Master's of Science degree in Management with a concentration in finance.

I was hired as Utility Analyst in the Economics and Finance Division of the OUCC in October 1990. Since then, my primary areas of responsibility have been in utility finance, utility cost of capital, and regulatory policy. I was promoted to Principal Utility Analyst in August 1993 and to Assistant Chief of Economics and Finance in July 1994. As part of an agency-wide reorganization in July 1999, my position was reclassified as Lead Financial Analyst within the Rates/Water/Sewer Division. In October 2005, I was promoted to Assistant Director of the Water/Wastewater Division. In October 2012, I was promoted to Chief Technical Advisor. I have participated in numerous conferences and seminars regarding utility regulation and financial issues. I was awarded the professional designation of Certified Rate of Return Analyst (CRRA) by the Society of Utility and Regulatory Financial Analysts (SURFA). This designation is awarded based upon experience and the successful completion of a written examination. In April 2012, I was elected to SURFA's Board of Directors and continue to serve on SURFA's Board.

Q: Have you previously testified before the Indiana Utility Regulatory Commission?

A: Yes. I have testified before the Indiana Utility Regulatory Commission ("IURC" or "Commission") in a number of different cases and issues. I have testified in water, wastewater, natural gas, telecommunication and electric utility cases. While my primary areas of responsibility have been in cost of equity, utility financing, fair value, utility valuation and regulatory policy, I have provided testimony on trackers, guaranteed performance contracts, declining consumption adjustments, and other issue.

APPENDIX B

Attachment ERK - 1	Is a copy of Respondent's reply to OUCC Data Request questions 1, 3, and 6-16.
Attachment ERK - 2	Is a copy of a press release by American Water Works, issued on April 20th, 2018, titled: American Water Increases Quarterly Dividend by 9.6%.
Attachment ERK - 3	Is a copy of a press release by American Water Works, issued on May 2nd, 2018, titled: American Water Reports First Quarter 2018 Results.
Attachment ERK - 4	Is a copy of pages 3, 5, 10, 15, 19 and 28 from American Water Works June 2018, Investor Presentation.
Attachment ERK - 5	Is a copy of Value Line's quarterly report on American Water, dated April 13, 2018.

AFFIRMATION

I affirm, under the penalties for perjury, that the foregoing representations are true.

Edward R Kaufman

By: Edward R. Kaufman
Cause No. 45032 S4
Indiana Office of
Utility Consumer Counselor

6/18/18
Date:

OUCC 01-001

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

As of the end of each month in 2018, what was the balance in Indiana American's regulatory liability that they established for excess income taxes it collected in 2018?

a. Please explain how Indiana-American calculated each month's balance.
b. Please state each component of the regulatory liability, including the amount associated with Indiana-American's protected excess ADIT amortization.

Information Provided:

The balance of Indiana American's regulatory liability for each month that relates to revenue recorded in 2018 based on excess income taxes is presented below. These amounts exclude any ADIT remeasurement and amortizations discussed in part b.

January 2018 - $884,064
February 2018 - $1,809,765
March 2018 - $2,728,482
April 2018 - $3,582,465

a. Each month's balance was calculated by establishing a percentage of revenue and applying it each month's applicable revenue. The percentage of revenue represents the decrease in the 2018 income tax rate in the revenue requirement utilized in authorizing the current month tariff rates. There was a percentage of revenue rate established for general rates and a percentage of revenue rate established for DSIC surcharge rate.

    - General Rates – TCJA Percentage of Revenue – The -5.0809% percentage of revenue established for general rates was developed from amounts provided in this Cause 45032. Indiana American developed -$10,544,252 of less revenue and divided it by $207,529,092 of authorized revenue from Cause 44450. The -5.0809% percentage of revenue was applied to revenue recorded from January 3, 2018 forward.

    - DSIC – TCJA Percentage of Revenue – The -9.94% percentage of revenue established for the DSIC surcharge rate was developed by calculating a change in the pre-tax rate of return related to income tax rate change of -1.208731%. The change in pre-tax rate of return of -1.208731% was then applied to the authorized DSIC 9 & 10 rate base of $96,755,387 from Cause 42351. The calculated result of -$1,169,512 is then divided by the authorized revenues of $11,767,724 for DSIC 9 & 10. The DSIC percentage of revenue was only applied to revenue from January 3, 2018 to March 13, 2018. Cause 42351 DSIC 11, which incorporated the 2018 income tax rate change, was approved and effective on March 14, 2018.

b. The amounts provided above include only the revenue collected in 2018 related to the excess income tax expense. It does not include any amortization (protected or unprotected) of the remeasurement of prior deferred taxes.

The Company, upon close of its 2017 financials, remeasured its deferred taxes to 21% as required by GAAP. The SEC recognizes though, by issuing SAB 118, that companies may not be able to fully calculate an actual amount but that it may be an estimate, and provides a year to refine the amount. The Company is still in the process of determining what piece of the remeasurement is protected and unprotected. The Company believes per the normalization rules in the tax code, that it needs to use ARAM to calculate the amortization of the remeasurement. In order to do that, the Company needs to update its systems to handle that and that will take some time. This will be discussed more in testimony for Phase 2 of this proceeding.

OUCC 01-003

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Page 2 of the "Investor Fact Sheet" on American Water's website lists companies that provide Analyst Coverage of American Water. Please provide copies of the current opinion from the following analysts listed on American Water Company's fact sheet: "Argus Analyst", Janey Montgomery Scott, Merrill Lynch, and Wells Fargo Securities.

Objections:

Respondent objects on the grounds and to the extent the Request seeks information that is confidential and proprietary information of third parties. Indiana American is not at liberty to provide the requested reports. The research firms that write these reports make them available to the public for a fee. Respondent further objects on the grounds and to the extent that the information is equally available to the OUCC as it is to Respondent.

Information Provided:

See objections.

OUCC 01-006

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

For each of the last three years, please state Indiana American's payout ratio to its parent company. Please provide the inputs to make each calculation to determine the payout ratio.

Information Provided:

	For Year Ended December 31,		
	2017	2016	2015
Common Dividends	$25,776,316	$28,369,175	$25,940,942
Net Income Available to Common	$39,610,585	$32,579,212	$35,314,556
Payout Ratio	65.07%	87.08%	73.46%

Indiana American's common dividends are calculated based on net income to common stock earned during a twelve month period ending September 30 and are paid quarterly in arrears. For example, the dividend paid on December 29, 2017 was based on net income for the quarter ended September 30, 2017. Each quarterly dividend payment is approximately 75% of the net income earned in the previous quarter. Thus, net income earned during a calendar is not likely to match the net income used to calculate dividend payments during that calendar year.

OUCC 01-007

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Does Indiana American have a target payout ratio to its parent company? What is that target payout ratio?

Information Provided:

Yes, the target payout ratio is approximately 75% of annual net income to common stock, subject to any restrictions contained in loan agreements, indentures, regulatory orders, charters, or relevant state or federal tax laws. The calculation of the dividend is based on net income to common stock earned during a twelve month period ending September 30 and is paid quarterly in arrears.

OUCC 01-008

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Does Indiana American intend to decrease its target payout ratio in response to potential weakening credit quality from the Tax Cuts and Jobs Act of 2017 ("TCJA")?

Information Provided:

At this time Indiana American does not anticpate decreasing its target payout ratio in response to the TCJA of 2017.

No. OUCC 01-009

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Please describe any plans American Water Company ("AWK") has to issue common equity during the next three calendar years 2018-2020.

Information Provided:

Under our five-year capital plan (2018-2022), AWK does not expect to issue common equity under normal operating conditions.

OUCC 01-010

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Please describe any plans AWK has to infuse common equity to Indiana American during the next three calendar years 2018-2020.

Information Provided:

Indiana-Amerian's current planned common equity infusions from AWK for 2018-2020 are as follows:

Year	Amount
2018	$40 million
2019	$30 million
2020	$10 million

OUCC 01-011

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Does Indiana American have a target debt to equity ratio? If yes, what is the target debt to equity ratio? Please explain your answer.

Information Provided:

Yes. Indiana-American considers the appropriate mix of debt, preferred stock and common equity appropriate for its capital structure. The determination of whether to issue equity or debt, and the type of debt, is made by Indiana American based on its capital structure objectives and on capital market conditions at the time the security is to be issued. To check the reasonableness of the target equity ratio, Indiana Amerian evaluates the equity ratios of market-traded water utilities ("proxy group"). It is reasonable to assume that the proxy group firms have a business risk profile approximating that of Indiana American, and would manage their capital structures based on that level of business risk.

Indiana American's target equity ratio is currently in the range of 54% to 57%, which is consistent with the average of the proxy group. The average equity ratio of the proxy group was 54.83% at December 31, 2017, and is projected by Value Line to be 54.19% at December 31, 2018. Indiana American's target equity ratio will support the Company's goals of attracting capital at a reasonable cost and maintaining financial stability.

OUCC 01-012

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Does Indiana American intend to decrease its target debt to equity ratio in response to potential weakening credit quality from the TCJA?

Information Provided:

At this time Indiana American does not anticpate decreasing its target debt to equity ratio in response to the TCJA of 2017.

OUCC 01-013

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Has Indiana American forecasted its interest coverage ratio for 2018, 2019 and 2020 under the Company's proposed treatment? If yes, what are the Company's forecasted debt service coverage ratios for each year? Please provide the figures used for any calculations. If Excel was used, please provide a copy of the Excel spreadsheet with formulas intact.

Information Provided:

No, Indiana American has not forecasted its interest coverage ratio for 2018, 2019 and 2020 under the Company's proposed treatment.

OUCC 01-014

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Has Indiana American forecasted its interest coverage ratio for 2018, 2019 and 2020 assuming the Company's proposed treatment is not accepted by the Commission? If yes, what are the Company's forecasted debt service coverage ratios for each year? Please provide the figures used for any calculations. If Excel was used, please provide a copy of the Excel spreadsheet with formulas intact

Information Provided:

No, Indiana American has not forecasted its interest coverage ratio for 2018, 2019 and 2020 assuming the Company's proposed treatment is not accepted by the Commission.

OUCC 01-015

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Has Indiana American forecasted its FFO / Debt ratio for 2018, 2019 and 2020 under the Company's proposed treatment? If yes, what are the Company's forecasted debt service coverage ratios for each year? Please provide the figures used for any calculations. If Excel was used, please provide a copy of the Excel spreadsheet with formulas intact.

Information Provided:

No, Indiana American has not forecasted its FFO / Debt ratio for 2018, 2019 and 2020 under the Company's proposed treatment.

OUCC 01-016

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Has Indiana American forecasted its FFO / Debt ratio for 2018, 2019 and 2020 assuming the Company's proposed treatment is not accepted by the Commission? If yes, what are the Company's forecasted debt service coverage ratios for each year? Please provide the figures used for any calculations. If Excel was used, please provide a copy of the Excel spreadsheet with formulas intact.

Information Provided:

No, Indiana American has not forecasted its FFO / Debt ratio for 2018, 2019 and 2020 assuming the Company's proposed treatment is not accepted by the Commission.

OUCC 01-017

DATA INFORMATION REQUEST
Indiana-American Water Company
Cause No. 45032 S4

Information Requested:

Please provide a copy of any analysis Petitioner has conducted to estimate the impact of its proposal in this Phase 1 sub-docket on Indiana American's cash flow to debt metrics (as described on page 17 of Mr. Watkins' testimony). If Excel was used, please provide a copy of the Excel spreadsheet with formulas intact.

Information Provided:

Indiana American has not conducted an analysis to estimate the impact of its proposal in this Phase 1 sub-docket on Indiana American's cash flow to debt metrics (as described on page 17 of Mr. Watkins' testimony). Pages 16 and 17, are referring to a Moody's Report which was attached to the testimony as Attachment JMW-1.

AMERICAN WATER

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American Water Increases Quarterly Dividend by 9.6%

The company has increased its dividend every year since IPO in 2008

VOORHEES, N.J.--(BUSINESS WIRE)-- American Water Works Company, Inc. (NYSE: AWK) announced today that its board of directors increased its quarterly cash dividend payment from 41.5 cents to 45.5 cents per share, a 9.6 percent increase. The company has increased its dividend every year since its IPO in April 2008.

The increased payment is consistent with American Water's dividend practice, which is to link dividend increases to earnings per share growth and target a payout ratio between 50 to 60 percent of net income.

"American Water is committed to all of our stakeholders— shareholders, customers, employees and communities. We continue to pay dividends to our owners that are aligned with our financial performance, while at the same time continue robust investment in our systems to ensure clean, safe, reliable and affordable water services for our customers and communities," said Susan Story, president and CEO of American Water.

The increased dividend will be payable on June 1, 2018, to all stockholders of record as of May 11, 2018.

American Water offers a dividend reinvestment and direct stock purchase plan called American Water Stock Direct, which enables stockholders to reinvest cash dividends and purchase additional shares of American Water common stock without any brokerage commissions or service charges. Stockholders and other persons may obtain a copy of the Plan prospectus and an enrollment form by contacting American Stock Transfer & Trust Company ("AST") at 888-556-0423, visiting AST's website at www.amstock.com, contacting American Water's Investor Relations department at 877-310-7174 or by visiting the Investor Relations webpage located at ir.amwater.com.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy any securities. The offer is being made solely through the Plan prospectus.

About American Water

With a history dating back to 1886, American Water is the largest and most geographically diverse U.S. publicly traded water and wastewater utility company. The company employs more than 6,900 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 46 states and Ontario, Canada. American Water provides safe, clean, affordable and reliable water services to our customers to make sure we keep their lives flowing. For more information, visit amwater.com and follow American Water on Twitter, Facebook and LinkedIn.

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Source: American Water Works Company, Inc.

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AMERICAN WATER

May 2, 2018

American Water Reports First Quarter 2018 Results

- **First quarter 2018 diluted earnings per share (GAAP) $0.59 compared to $0.52 in the first quarter of 2017**
- **Strong results in both the Regulated Businesses and the Market-Based Businesses**
- **Increased quarterly dividend by 9.6 percent to 45.5 cents per diluted common share**
- **Company affirms 2018 earnings guidance range of $3.22 to $3.32 per diluted share**

VOORHEES, N.J.--(BUSINESS WIRE)-- American Water Works Company, Inc. (NYSE: AWK) today reported results for the quarter ended March 31, 2018.

"We are off to a strong start this year with first quarter 2018 earnings per share up 13.5 percent compared to last year. Our first quarter results demonstrate that American Water employees continue to grow our business through the consistent execution of our strategies," said Susan Story, president and CEO of American Water. "Reflecting the company's strong performance, the Board of Directors approved a 9.6 percent increase in our quarterly dividend to 45.5 cents per share, marking the sixth year in a row that the dividend increases at or above the top of the long-term EPS compound annual growth range.

"During the quarter, we saw growth in both our Regulated and Market-Based Businesses. We invested $343 million to better serve our customers and added approximately 5,200 customers to date through closed acquisitions and organic growth. We also recently announced our agreement to acquire the Alton, Illinois Regional Wastewater System, " added Story. "Our employees have lived, worked and served water in this great city for over 140 years and we welcome these 23,000 new wastewater customers when we close, expected in the first quarter of 2019.

"In our Market-Based Businesses, we recently announced the acquisition of Pivotal Home Solutions, a leading provider of home warranty protection products and services that is highly complementary to our Homeowner Services Group. We have been in this business for 16 years, and we are excited to welcome the great men and women of Pivotal into the American Water family upon close of the transaction expected in the second quarter."

Consolidated Results

In the first quarter 2018, income from continuing operations increased $0.07 per diluted share compared to the prior year. Net income from the Regulated Businesses increased $0.05 per diluted share or 9.4 percent from an increase in authorized revenue driven by capital investments, acquisitions and organic growth. Net income from the Market-Based Businesses increased $0.03 per diluted share, primarily from stronger results in the Homeowner Services Group, compared to the prior year and the Parent decreased $0.01 per diluted share from the lower tax shield on interest expense.

For the first three months of 2018, the company made capital investments of approximately $343 million, including $302 million dedicated primarily to improving infrastructure in the Regulated Businesses, and $8 million for regulated acquisitions. American Water plans to invest in the range of $1.9 billion to $2.1 billion, including the acquisition of Pivotal Home Solutions ("Pivotal"), across its footprint in 2018, with the majority dedicated to providing safe, clean and reliable service to its customers.

On April 11, 2018, AWE entered into an agreement to acquire all of the capital stock of Pivotal from a Southern Company subsidiary. Pivotal is a leading provider of home warranty protection products and services, operating in 18 states with approximately 1.2 million customer contracts. The purchase price is approximately $365 million, including an estimated $7 million of working capital. This transaction, which is subject to obtaining regulatory consents and approvals and the satisfaction of other customary closing conditions, is expected to close in the second quarter of 2018 and be financed with approximately 50% debt and 50% equity. American Water entered into an equity forward transaction that substantially eliminates future equity market price risk, while mitigating immediate share dilution resulting from the transaction until funds are needed in connection with the closing of the acquisition.

Regulated Businesses

In the first quarter of 2018, net income in the Regulated Businesses was $104 million, compared to $94 million for the same period in 2017. Regulated revenue increased $7 million driven by a $39 million increase from additional authorized revenue and surcharges to support infrastructure investments, acquisitions, and organic growth; partially offset by $32 million of deferred revenue resulting from the lower federal tax rate under the Tax Cut and Jobs Act ("TCJA") that is estimated to be refunded to customers. This increase was partially offset by higher O&M expense of $19 million which includes higher production expense of $6 million due to purchased water price and usage increases in our California subsidiary and the remaining $13 million is to support regulated acquisition growth and higher main breaks from the harsh frigid weather conditions across several regulated states. In addition, depreciation expense increased $5 million from infrastructure investment growth. Income taxes were lower by $22 million from the lower federal tax rate under the TCJA.

Through May 2, 2018, the company received additional annualized revenues of approximately $95 million from general rate cases and approximately $15 million from infrastructure surcharges. The company is awaiting final orders for general rate cases in three states for a total annualized revenue request of approximately $165 million, adjusted for certain impacts of the TCJA. The extent to which requested rate increases will be granted by the applicable regulatory agencies will vary.

For the 12-month period ended March 31, 2018, the company's adjusted regulated O&M efficiency ratio (a non-GAAP financial measure) improved to 35.6 percent, compared to 36.6 percent for the 12-month period ended March 31, 2017. For period-to-period comparability purposes, both of these ratios present the estimated impact of the TCJA on operating revenues for the Regulated Businesses on a pro forma basis, as if the lower federal corporate income tax rate was in effect for these periods. By reducing O&M expense as a proportion of revenue, American Water is able to make investments in needed capital improvements without significantly impacting customer bills.

Market-Based Businesses

In the first quarter of 2018, net income in the Market-Based Businesses was $12 million, compared to $7 million for the same period in 2017. The increase was primarily driven by growth in the Homeowner Services Group through customer growth and cost management and the impact of the lower federal income tax rate under the TCJA.

On April 11, 2018, American Water announced the signing of an agreement to acquire Pivotal Home Solutions, which is the home warranty business owned by Southern Company subsidiary Southern Gas. With this acquisition, Homeowner Services will be the second largest provider of utility home warranty products in the United States. In addition, the highly complementary acquisition strengthens American Water's platform for cross selling products and organic growth.

Dividends

On Apr. 20, 2018, American Water's board of directors declared a quarterly cash dividend payment of $0.455 per share of common stock, payable on Jun. 1, 2018, to all stockholders of record as of May 11, 2018.

2018 Earnings Guidance

American Water has affirmed its 2018 earnings guidance to a GAAP range of $3.22 - $3.32 per diluted share. The company's earnings forecasts are subject to numerous risks and uncertainties, including, without limitation, those described under "Forward-Looking Statements" below and under "Risk Factors" in its annual and quarterly reports filed with the Securities and Exchange Commission ("SEC").

Non-GAAP Financial Measures

This press release includes a presentation of the adjusted Regulated O&M efficiency ratio, which, in addition to the pro forma adjustment for the impact of the TCJA, excludes from its calculation estimated purchased water revenues and purchased water expenses, the impact of certain Freedom Industries, Inc. chemical spill settlement activities recognized in 2016 and 2017, the impact of the company's adoption of Accounting Standard Update 2017-07 related to net periodic pension and post-retirement benefit costs for 2016, 2017 and 2018, and the allocable portion of non-O&M support services costs, mainly depreciation and general taxes. This item constitutes a "non-GAAP financial measure" under SEC rules. This item is derived from American Water's consolidated financial information but is not presented in its financial statements prepared in accordance with GAAP. This non-GAAP financial measure supplements and should be read in conjunction with the company's GAAP disclosures and should not be considered an alternative to any GAAP measure.

Management believes that the presentation of this measure is useful to investors because it provides a means of evaluating the company's operating performance without giving effect to items that are not reflective of management's ability to increase efficiency of the company's regulated operations. In preparing operating plans, budgets and forecasts, and in assessing historical performance, management relies, in part, on trends in the company's historical results, exclusive of estimated revenues and expenses related to purchased water, the Freedom Industries chemical spill settlement activities and the allocable portion of non-O&M support services costs. The company's definition of this metric may not be comparable to the same or similar measures used by other companies, and, accordingly, this non-GAAP financial measure may have significant limitations on its use.

Set forth in this release is a table that reconciles each of the components used to calculate adjusted O&M efficiency ratio to the most directly comparable GAAP financial measure.

First Quarter 2018 Earnings Conference Call

The first quarter 2018 earnings conference call will take place on Thursday, May 3, 2018, at 9 a.m. Eastern Daylight Time. Interested parties may listen to the conference call over the Internet by logging on to the Investor Relations page of the company's website at https://amwater.com. Presentation slides that will be used in conjunction with the earnings conference call will also be made available online. The company recognizes its website as a key channel of distribution to reach public investors and as a means of disclosing material non-public information to comply with its obligations under SEC Regulation FD.

Following the earnings conference call, an audio archive of the call will be available through May 10, 2018. U.S. callers may access the audio archive toll-free by dialing 1-877-344-7529. International callers may listen by dialing 1-412-317-0088. The access code for replay is 10119526. The online webcast will be available at American Water's investor relations homepage at http://ir.amwater.com through June 3, 2018. After that, the archived webcast will be available for one year at http://ir.amwater.com.

About American Water

With a history dating back to 1886, American Water is the largest and most geographically diverse U.S. publicly-traded water and wastewater utility company. The company employs more than 6,900 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 46 states and Ontario, Canada. More information can be found by visiting amwater.com.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this press release including, without limitation, 2018 earnings guidance, the outcome of pending acquisition activity and estimated revenues from rate cases and other government agency authorizations, are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and the Federal securities laws. In some cases, these forward-looking statements can be identified by words with prospective meanings such as "intend," "plan," "estimate," "believe," "anticipate," "expect," "predict," "project," "propose," "assume," "forecast," "outlook," "future," "pending," "goal," "objective," "potential," "continue," "seek to," "may," "can," "will," "should" and "could" and or the negative of such terms or other variations or similar expressions. These forward-looking statements are predictions based on American Water's current expectations and assumptions regarding future events. They are not guarantees or assurances of any outcomes, financial results of levels of activity, performance or achievements, and readers are cautioned not to place undue reliance upon them. The forward-looking statements are subject to a number of estimates and assumptions, and known and unknown risks, uncertainties and other factors. Actual results may differ materially from those discussed in the forward-looking statements included in this press release as a result of the factors discussed in the Company's Annual Report on Form 10-K for the year ended Dec. 31, 2017, and subsequent filings with the SEC, and because of factors such as: the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness and outcome of regulatory commissions' actions concerning rates, capital structure, authorized return on equity, capital investment, permitting, and other decisions; changes in laws, governmental regulations and policies, including environmental, health and safety, water quality, and public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections; potential costs and liabilities of American Water for environmental laws and similar matters resulting from, among other things, water and wastewater service provided to customers, including, for example, water management solutions focused on customers in the shale natural gas exploration and production market; the outcome of litigation and similar government actions, including matters related to the Freedom Industries chemical spill in West Virginia, and the preliminarily approved global class action settlement related to this chemical spill; weather conditions, and events, climate change patterns, and natural disasters, including drought or abnormally high rainfall, strong winds, coastal and intercoastal flooding, earthquakes, landslides, hurricanes, tornadoes, wildfires, electrical storms and solar flares; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; its ability to appropriately maintain current infrastructure, including its operational and information technology ("IT") systems, and manage the expansion of its business; its ability to obtain permits and other approvals for projects; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; the intentional or unintentional acts of a third party, including contamination of its water supplies or water provided to its customers; exposure or infiltration of its critical infrastructure, operational technology and IT systems, including the disclosure of sensitive or confidential information contained therein, through physical or cyber-attacks or other disruptions; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully meet growth projections and capitalize on growth opportunities, including its ability to, among other things, acquire and integrate water and wastewater systems into its regulated operations and enter into contracts and other agreements with, or otherwise obtain, new customers in its Market-based Businesses; cost overruns relating to improvements in or the expansion of its operations; its ability to maintain safe work sites; risks and uncertainties associated with contracting with the U.S. government, including ongoing compliance with applicable government procurement and security regulations; changes in general economic, political, business and financial market conditions; access to sufficient capital on satisfactory terms and when and as needed to support operations and capital expenditures; fluctuations in interest rates; restrictive covenants in or changes to the credit ratings on its current or future debt that could increase its financing costs or funding requirements or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase its financing costs and funding requirements; changes in Federal or state income, general and other tax laws, including tax reform, the availability of tax credits and tax abatement programs, and the ability to utilize its U.S. and state net operating loss carryforwards; migration of customers into or out of its service territories; the use by municipalities of the power of eminent domain or other authority to condemn its systems; difficulty in obtaining, or the inability to obtain, insurance at acceptable rates and on acceptable terms and conditions; its ability to retain and attract qualified employees; labor actions including work stoppages and strikes; the incurrence of impairment charges related to American Water's goodwill or other assets; civil disturbances, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts; the impact of new accounting standards or changes to existing standards; obtaining regulatory consents and approvals required to complete, and satisfying other conditions to the closing of, the acquisition of Pivotal Home Solutions; the timing of the closing of the acquisition; our ability to finance the purchase price of this acquisition; the occurrence of the benefits and synergies expected or predicted to occur as a result of the completion of the acquisition; unexpected costs, liabilities or delays associated with the acquisition or the integration of the business, operations and employees; the timing and method of settlement of the forward sale agreements; and the amount and intended use of proceeds that may be received from the settlement of the forward sale agreements.

These forward-looking statements are qualified by, and should be read together with, the risks and uncertainties set forth above and the risk factors included in the company's annual and quarterly SEC filings, and readers should refer to such risks, uncertainties and risk factors in evaluating such forward-looking statements. Any forward-looking statements speak only as of the date of this press release. The company does not have or undertake any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise, except as otherwise required by the Federal securities laws. Furthermore, it may not be possible to assess the impact of any such factor on the company's businesses, either viewed independently or together, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Operations (Unaudited)
(In millions, except share and per share data)

	For the Three Months Ended March 31, 2018	For the Three Months Ended March 31, 2017
Operating revenues	$ 761	$ 756
Operating expenses:		
Operation and maintenance	347	334
Depreciation and amortization	129	124
General taxes	70	68
Gain on asset dispositions and purchases	(2)	—
Total operating expenses, net	544	526
Operating income	217	230
Other income (expense):		
Interest, net	(84)	(85)
Non-operating benefit costs, net	3	(3)
Other, net	4	3
Total other income (expense)	(77)	(85)
Income before income taxes	140	145
Provision for income taxes	34	52
Net income attributable to common stockholders	$ 106	$ 93

Basic earnings per share:

Net income attributable to common stockholders	$ 0.60	$ 0.52
Diluted earnings per share:		
Net income attributable to common stockholders	$ 0.59	$ 0.52
Weighted-average common shares outstanding:		
Basic	178	178
Diluted	179	179
Dividends declared per common share	$ —	$ —

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	March 31, 2018	December 31, 2017
ASSETS		
Property, plant and equipment	$ 21,995	$ 21,716
Accumulated depreciation	(5,518)	(5,470)
Property, plant and equipment, net	16,477	16,246
Current assets:		
Cash and cash equivalents	55	55
Restricted funds	26	27
Accounts receivable, net	273	272
Unbilled revenues	188	212
Materials and supplies	42	41
Other	145	113
Total current assets	729	720
Regulatory and other long-term assets:		
Regulatory assets	1,062	1,061
Goodwill	1,379	1,379
Other	81	76
Total regulatory and other long-term assets	2,522	2,516
Total assets	$ 19,728	$ 19,482

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets (Unaudited)
(In millions, except share and per share data)

	March 31, 2018	December 31, 2017
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock ($0.01 par value, 500,000,000 shares authorized, 182,723,455 and 182,508,564 shares issued, respectively)	$ 2	$ 2
Paid-in-capital	6,438	6,432
Accumulated deficit	(617)	(723)
Accumulated other comprehensive loss	(75)	(79)
Treasury stock, at cost (4,683,156 and 4,064,010 shares, respectively)	(297)	(247)
Total common stockholders' equity	5,451	5,385
Long-term debt	6,396	6,490
Redeemable preferred stock at redemption value	7	8
Total long-term debt	6,403	6,498
Total capitalization	11,854	11,883
Current liabilities:		
Short-term debt	1,183	905
Current portion of long-term debt	421	322
Accounts payable	133	195

Accrued liabilities	495	630
Taxes accrued	64	33
Interest accrued	84	73
Other	159	167
Total current liabilities	2,539	2,325
Regulatory and other long-term liabilities:		
Advances for construction	265	271
Deferred income taxes, net	1,585	1,551
Deferred investment tax credits	22	22
Regulatory liabilities	1,673	1,664
Accrued pension expense	390	384
Accrued post-retirement benefit expense	39	40
Other	74	66
Total regulatory and other long-term liabilities	4,048	3,998
Contributions in aid of construction	1,287	1,276
Commitments and contingencies		
Total capitalization and liabilities	$ 19,728	$ 19,482

American Water Works Company, Inc. and Subsidiary Companies
Adjusted Regulated Operation and Maintenance Efficiency Ratio (A Non-GAAP, unaudited measure)
In millions

	For the Twelve Months Ended March 31,	
(Dollars in millions)	**2018**	**2017**
Total operation and maintenance expenses	$ 1,388	$ 1,493
Less:		
Operation and maintenance expenses—Market-Based Businesses	329	361
Operation and maintenance expenses—Other	(48)	(44)
Total operation and maintenance expenses—Regulated Businesses	1,107	1,176
Less:		
Regulated purchased water expenses	131	122
Allocation of non-operation and maintenance expenses	30	28
Impact of Freedom Industries settlement activities (a)	(22)	65
Impact of adoption of ASU 2017-07 (b)	6	5
Adjusted operation and maintenance expenses—Regulated Businesses (i)	$ 962	$ 956
Total operating revenues	$ 3,362	$ 3,315
Less:		
Pro forma adjustment for impact of the TCJA (c)	129	163
Total pro forma operating revenues	3,233	3,152
Less:		
Operating revenues—Market-Based Businesses	419	440
Operating revenues—Other	(22)	(21)
Total pro forma operating revenues—Regulated Businesses	2,836	2,733
Less:		
Regulated purchased water revenues (d)	131	122
Adjusted pro forma operating revenues—Regulated Businesses (ii)	$ 2,705	$ 2,611
Adjusted O&M efficiency ratio—Regulated Businesses (i) / (ii)	35.6 %	36.6 %

NOTE The adjusted O&M efficiency ratio previously reported for the twelve months ended March 31, 2017 was 34.6%, which did not include the adjustments for the items discussed in footnotes (b) and (c) below.

(a) Includes the impact of the binding global agreement in principle to settle claims in 2016 and a settlement with one of our general liability insurance carriers in 2017.

(b) Includes the impact of the Company's adoption of ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit, on January 1, 2018.

(c) Includes the estimated impact of the TCJA on operating revenues for our Regulated Businesses for all periods presented prior to January 1, 2018, as if the lower federal income tax rate was in effect for these periods.

(d) The calculation assumes regulated purchased water revenues approximate regulated purchased water expenses.

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Source: American Water

Why Invest in American Water

- ✓Decades of infrastructure investment needed
- ✓Fragmented national water and wastewater landscape
- ✓Line of sight to $8.4-$9.0 billion of 5 year capex (includes Pivotal acquisition)
- ✓Capital-light MBB leverages core competencies, generates cash

- ✓Five year TSR of 175%
- ✓Long-term growth expected in top half of 7-10%* target EPS CAGR guidance through 2022 including Pivotal acquisition and tax reform
- ✓"A/A3" credit rating with strong balance sheet
- ✓Continuing to be more efficient in both O&M and capital costs
- ✓Leader in water quality and R&D

- ✓Multi-decade capital deployment needed
- ✓Hundreds of water projects per year reducing risk of single projects
- ✓Multiple state regulatory jurisdictions reduce both weather and regulatory risks
- ✓Enabling legislation and mechanism to support regulated investment

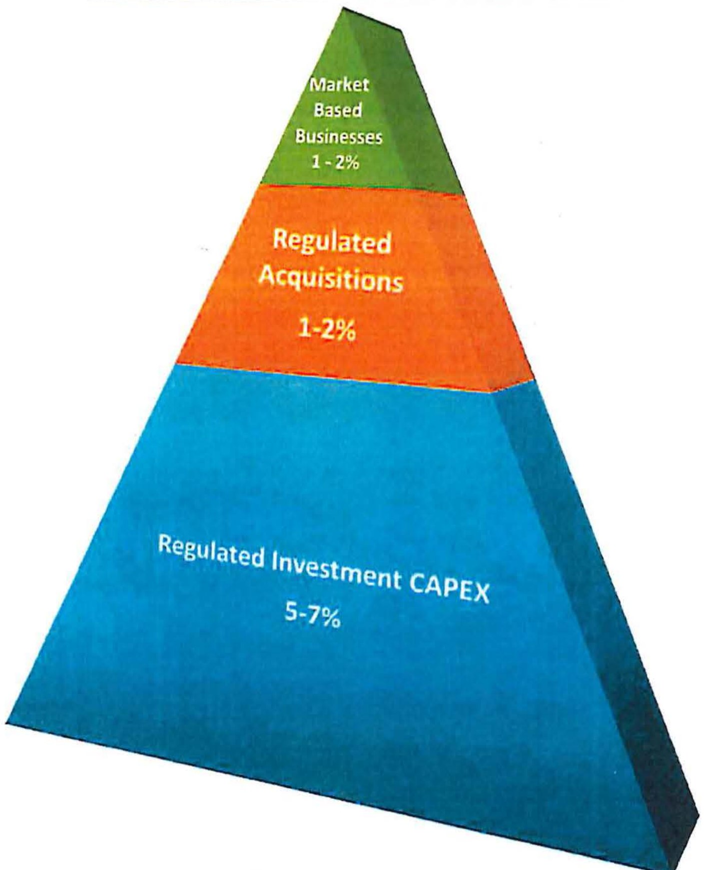
- ✓Six year dividend growth CAGR of ~10%
- ✓Guided to 2018-2022 Dividend Growth at top end of 7-10%* EPS growth CAGR
- ✓A leading investment in Environmental, Social Responsibility and Governance factors

** Anchored off of 2016 Adjusted EPS (a non-GAAP measure)*

June 2018

American Water Long-term Outlook

2018 - 2022 Plan
7-10%* EPS CAGR



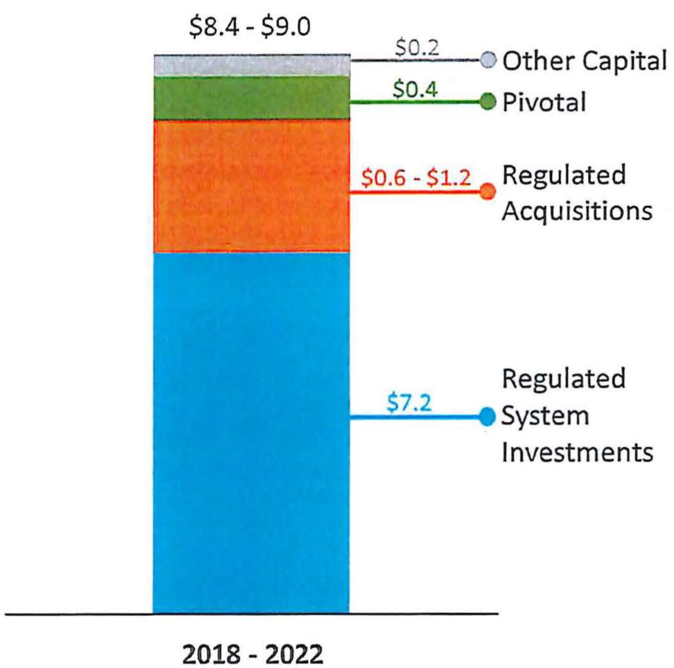
Long-term Highlights

- Expected to deliver in top half of **7-10%*** target EPS CAGR guidance through 2022 including Pivotal acquisition and tax reform
- Affirming estimated **$8.4 - $9.0** billion (including Pivotal acquisition) five year capital investment with continued focus on customer affordability
- Continuing our focus on **improving O&M Efficiency** through technology, supply chain, and cost management
- **Growing our dividend** at high end of targeted long-term 7 – 10%* EPS CAGR**
- Affirming our on-going position that **no new equity** is required under normal operating conditions

** Anchored off of 2016 Adjusted EPS (a non-GAAP measure)*
*** Subject to board approval*

Our Regulated Infrastructure Investment Five-Year Plan

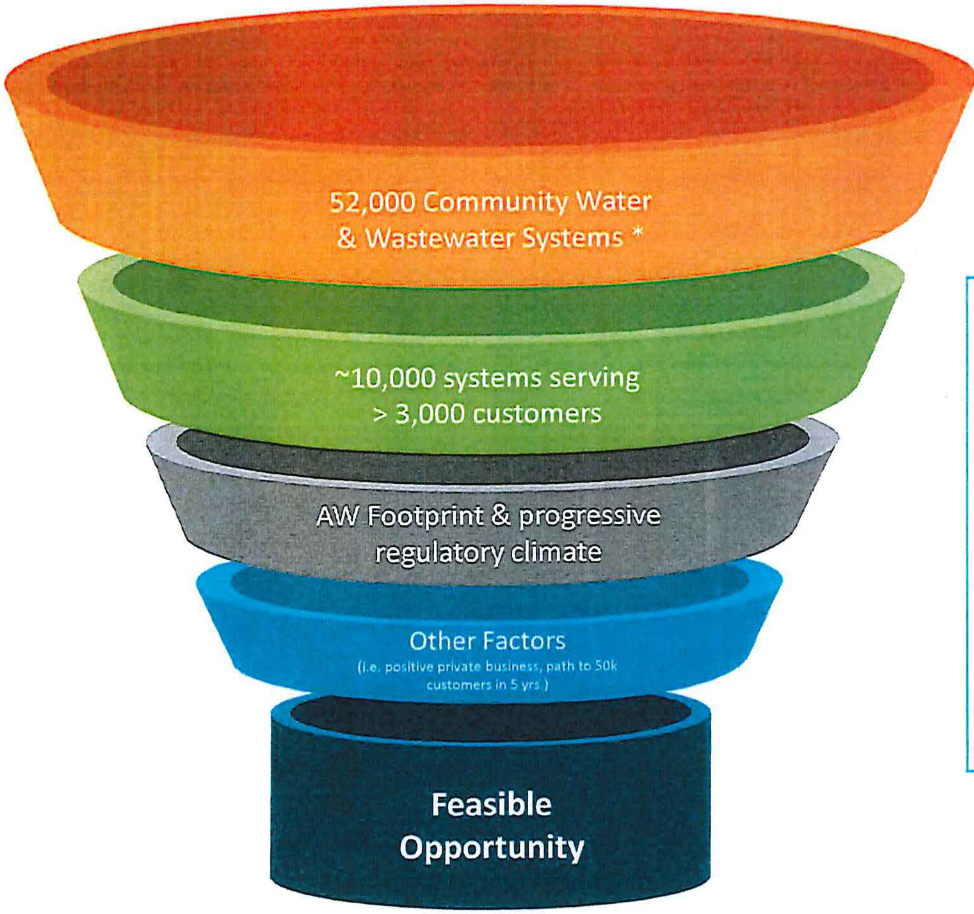
2018-2022 Capital Expenditure by Category
(In $ Billions)



Continued Smooth Deployment of Capital

- Our $7.2B capital program consists of many small projects:
  - Large projects: > $15mm/project, ~40 projects per year
  - Smaller projects: up to $15mm/project, ~3,500 projects per year
- AWK's average pipe replacement rate is once every 135 years. US industry average is every 200 years

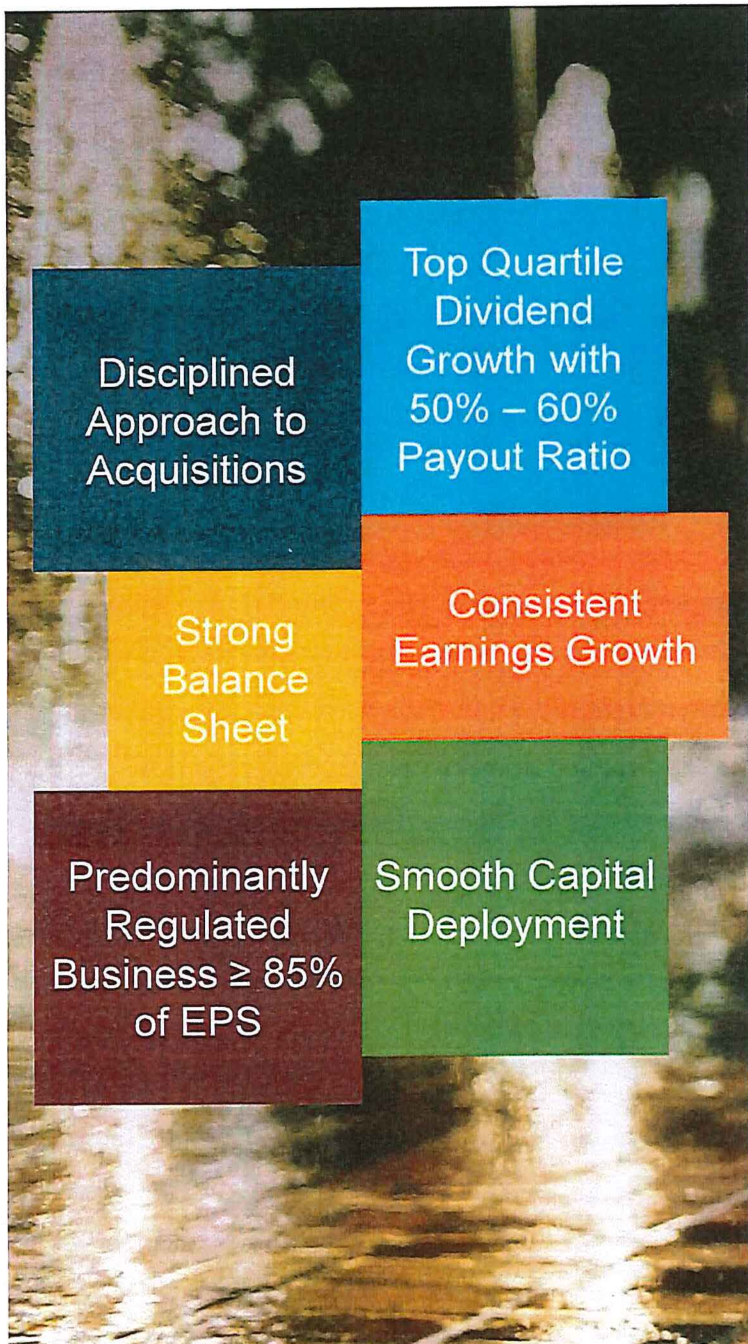
We Follow a Disciplined Approach to Business Development



American Water Acquisitions**
(Customer Connections)

- ✓ Closed 2015 – 24,056
- ✓ Closed 2016 – 42,195
- ✓ Closed 2017 – 39,664***
- ✓ Closed 2018 (YTD June 1) – 5,524
- ✓ Pending – ~54,000

** EPA's 2015 national assessment and report to Congress*
*** Excludes organic growth customer connections*
**** This includes the McKeesport, PA acquisition, which represents 22,000 customers, due to bulk contracts. Connections to the system are approximately 11,000*

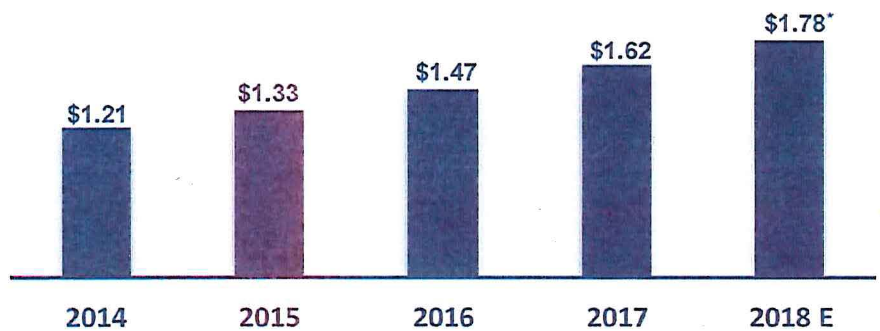


Delivering Value Through Disciplined Financial Management

Total Shareholder Return (Price + Dividend)

	One Year	Three Year	Five Year
American Water	10.4%	67.8%	137.1%
UTY Index	4.1%	29.5%	48.6%
S&P 500	14.9%	34.4%	87.5%

Six Consecutive Years with ~10% Dividend Growth



* *Future dividends are subject to approval of the American Water Board of Directors*

Closed and Pending Acquisitions as of June 1, 2018

2018 Closed Acquisitions

State	No. of Acquisitions	Water Customers	Wastewater Customers	Total Customers
Illinois	5	2,428	2,308	4,736
Kentucky	1	610	-	610
Missouri	2	50	128	178
Total	8	3,088	2,436	5,524

Pending Acquisitions

State	No. of Acquisitions	Water Customers	Wastewater Customers	Total Customers
California	4	8,629	-	8,629
Illinois	1	-	23,000	23,000
Indiana	4	7,415	1,250	8,665
Missouri	1	970	904	1,874
Pennsylvania	3	-	12,076	12,076
Tennessee	1	110	-	110
Total	14	17,124	37,230	54,354

AMERICAN WATER NYSE-AWK

RECENT PRICE 81.16 | P/E RATIO 25.3 (Trailing: 26.4 Median: NMF) | RELATIVE P/E RATIO 1.37 | DIV'D YLD 2.3% | VALUE LINE

TIMELINESS 2 Raised 11/17/17
SAFETY 3 New 7/25/08
TECHNICAL 3 Lowered 3/2/18
BETA .65 (1.00 = Market)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
High:	23.7	23.0	25.8	32.8	39.4	45.1	56.2	61.2	85.2	92.4	91.5
Low:	16.5	16.2	19.4	25.2	31.3	37.0	41.1	48.4	58.9	70.0	76.0

2021-23 PROJECTIONS

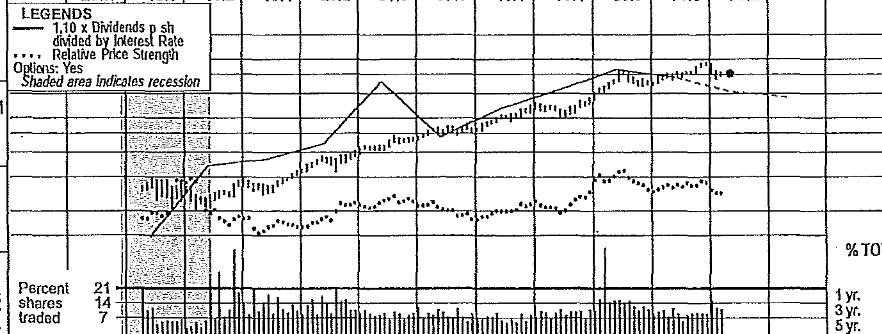
	Price	Gain	Ann'l Total Return
High	115	(+40%)	11%
Low	75	(-10%)	1%

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	1	0	0	2	0	7	13
to Sell	0	0	1	0	0	3	0	0	0

Institutional Decisions

	2Q2017	3Q2017	4Q2017
to Buy	281	262	265
to Sell	291	292	237
Hld's(000)	158865	160782	153130



Target Price Range 2021 | 2022 | 2023

% TOT. RETURN 3/18

	THIS STOCK	VL ARITH.* INDEX
1 yr.	7.8	9.7
3 yr.	61.6	24.3
5 yr.	122.5	68.8

2002	2003	2004	2005	2006	2007	2008[E]	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	© VALUE LINE PUB. LLC	21-23
--	--	--	--	13.08	13.84	14.61	13.98	15.49	15.18	16.25	16.28	16.78	17.72	18.54	18.81	19.05	19.85	Revenues per sh	22.95
--	--	--	--	.65	d.47	2.87	2.89	3.56	3.73	4.27	4.36	4.75	5.13	5.26	5.80	5.75	6.30	"Cash Flow" per sh	7.70
--	--	--	--	d.97	d2.14	1.10	1.25	1.53	1.72	2.11	2.06	2.39	2.64	2.62	3.03	3.25	3.50	Earnings per sh A	4.50
--	--	--	--	--	--	.40	.82	.86	.90	1.21	.84	1.21	1.33	1.47	1.62	1.78	1.95	Div'd Decl'd per sh B■	2.60
--	--	--	--	4.31	4.74	6.31	4.50	4.38	5.27	5.25	5.50	5.33	6.51	7.36	8.05	9.60	9.55	Cap'l Spending per sh	9.20
--	--	--	--	23.86	28.39	25.64	22.91	23.59	24.11	25.11	26.52	27.39	28.25	29.24	30.18	31.75	33.90	Book Value per sh D	42.00
--	--	--	--	160.00	160.00	160.00	174.63	175.00	175.66	176.99	178.25	179.46	178.28	178.10	178.44	179.00	180.00	Common Shs Outst'g C	187.50
--	--	--	--	--	--	18.9	15.6	14.6	16.8	16.7	19.9	20.0	20.5	27.7	26.5	Bold figures are		Avg Ann'l P/E Ratio	21.5
--	--	--	--	--	--	1.14	1.04	.93	1.05	1.06	1.12	1.05	1.03	1.45	1.29	Value Line		Relative P/E Ratio	1.20
--	--	--	--	--	--	1.9%	4.2%	3.8%	3.1%	3.4%	2.0%	2.5%	2.5%	2.0%	2.0%	estimates		Avg Ann'l Div'd Yield	2.7%

CAPITAL STRUCTURE as of 12/31/17
Total Debt $7717.0 mil. Due in 5 Yrs $2192.0 mil.
LT Debt $6490.0 mil. LT Interest $320.0 mil.
(55% of Cap'l)

Leases, Uncapitalized: Annual rentals $15.0 mill.
Pension Assets 12/16 $1649.0 mill
Oblig. $2034.0 mill.
Pfd Stock $8.0 mill. Pfd Div'd $.4 mill

Common Stock 178,551,923 shs.
as of 2/15/17

MARKET CAP: $14.5 billion (Large Cap)

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019		21-23
2336.9	2440.7	2710.7	2666.2	2876.9	2901.9	3011.3	3159.0	3302.0	3357.0	3410	3575	Revenues ($mill)	4300
187.2	209.9	267.8	304.9	374.3	369.3	429.8	476.0	468.0	542.4	580	630	Net Profit ($mill)	845
37.4%	37.9%	40.4%	39.5%	40.7%	39.1%	39.4%	39.1%	39.2%	40.0%	21.0%	21.0%	Income Tax Rate	21.0%
--	--	--	--	6.2%	5.1%	--	--	5.1%	4.0%	5.0%	5.0%	AFUDC % to Net Profit	5.0%
53.1%	56.9%	56.8%	55.7%	53.9%	52.4%	52.4%	53.7%	52.4%	54.6%	56.5%	57.5%	Long-Term Debt Ratio	57.5%
46.9%	43.1%	43.2%	44.2%	46.1%	47.6%	47.4%	46.2%	47.5%	45.3%	43.5%	42.5%	Common Equity Ratio	42.5%
8750.2	9289.0	9561.3	9580.3	9635.5	9940.7	10364	10911	10967	11883	13085	14400	Total Capital ($mill)	18625
9991.8	10524	11059	11021	11739	12391	12900	13933	14992	16246	17400	18800	Net Plant ($mill)	21200
3.7%	3.8%	4.4%	4.8%	5.4%	5.1%	5.5%	5.7%	5.6%	6.0%	5.0%	5.5%	Return on Total Cap'l	6.5%
4.6%	5.2%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	10.1%	10.0%	10.5%	Return on Shr. Equity	10.5%
4.6%	5.2%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	10.1%	10.0%	10.5%	Return on Com Equity	10.5%
3.0%	1.8%	2.8%	3.5%	3.6%	4.7%	4.3%	4.7%	4.0%	4.7%	4.5%	4.5%	Retained to Com Eq	4.5%
34%	65%	56%	52%	57%	40%	50%	50%	56%	53%	55%	56%	All Div'ds to Net Prof	58%

CURRENT POSITION ($MILL.)	2015	2016	12/31/17
Cash Assets	45.0	75.0	82.0
Accts Receivable	255.0	269.0	272.0
Other	357.0	440.0	366.0
Current Assets	657.0	784.0	720.0
Accts Payable	126.0	154.0	195.0
Debt Due	682.0	1423.0	1227.0
Other	725.0	815.0	903.0
Current Liab.	1533.0	2392.0	2325.0

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '14-'16 to '21-'23
Revenues	3.0%	3.5%	4.5%
"Cash Flow"	23.0%	8.5%	7.0%
Earnings	--	11.0%	8.5%
Dividends	--	9.0%	10.0%
Book Value	1.5%	4.0%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2015	698.0	782.0	896.0	783.0	3159.0
2016	743.0	827.0	930.0	802.0	3302.0
2017	756.0	844.0	936.0	821.0	3357
2018	725	850	1010	825	3410
2019	765	890	1055	865	3575

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2015	.44	.68	.96	.56	2.64
2016	.46	.77	.83	.57	2.62
2017	.52	.73	1.13	.65	3.03
2018	.55	.82	1.19	.69	3.25
2019	.60	.88	1.27	.75	3.50

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2014	.28	.31	.31	.31	1.21
2015	.31	.34	.34	.34	1.33
2016	.34	.375	.375	.375	1.47
2017	.375	.415	.415	.415	1.62
2018	.415				

BUSINESS: American Water Works Company, Inc. is the largest investor-owned water and wastewater utility in the U.S., providing services to over 15 million people in 46 states and Canada. (Regulated presence in 16 states.) Nonregulated business assists municipalities and military bases with the maintenance and upkeep as well. Regulated operations made up 88% of 2017 revenues. New Jersey is its largest market accounting for 25% of regulated revenues. Has 6,900 employees. The Vanguard Grp, owns 10.4% of outstanding shares; BlackRock, Inc., 7.4%; officers & directors, less than 1.0%. (3/18 Proxy). President & CEO: Susan N. Story. Chair.: George MacKenzie. Address: 1025 Laurel Oak Road, Voorhees, NJ 08043. Tel.: 856-346-8200. Internet: www.amwater.com.

American Water Works' earnings and dividend growth prospects remain the most attractive in the water utility sector. Over the next five-year period, management expects both the bottom line, and the distribution paid to shareholders to increase 7%-10% annually. This easily surpasses the market consensus for the other members of the group. How does the company achieve such success? Much can be attributed to its aggressive policy of acquiring small, inefficient water districts and reducing their expenses substantially.

The capital budget is very large. American Water estimates that outlays to refurbish and modernize its infrastructure will average as much as $1.7 billion per year through 2022. Financing these expenditures will require a fair amount of external financing. Management has stated that no major new equity offering is forthcoming. (We have shares outstanding rising only about 1% per annum.) Thus, the company's balance sheet should come under some pressure as it will probably become more leveraged. Even with the higher reliance on debt, however, American Water's finances should be adequate.

The regulatory climate will like continue to have a significant impact on the company's performance. The utility is so large that its operates in all but four of the 50 states. As it is a regulated entity, state authorities determine the rate of return that can be earned on investments. Most regulators realize that all of the water utilities are playing catch-up as they try to modernize pipeline and wastewater facilities. In the past, mostly to keep water bills low, both utilities and authorities ignored the disrepair of the nation's water system. As a result, regulators have taken a constructive approach in dealing with utilities. Because it is by far the largest member of the group, American Water has benefited the most from the policy. Conversely, any change in the nation's regulatory climate would have the biggest effect on the company.

These shares are timely. Also, AWK's yield is now not too much lower than the median for a water utility. Thus, investors do not have to pay much of a premium for the equity's better-than-average dividend growth potential.

James A. Flood *April 13, 2018*

(A) Diluted earnings. Excludes nonrecur. losses: '08, $4.62; '09, $2.63; '11, $0.07. Disc. oper.: '06, ($0.04); '11, $0.03; '12, ($0.10); '13,($0.01). GAAP used as of 2014, except for ($0.65) loss in '17 due to change in tax law. Next earnings report due mid-May. Quarterly earnings do not sum in '16 due to rounding. (B) Dividends paid in March, June, September, and December. ■ Div. reinvestment available. (C) In millions. (D) Includes intangibles. On 12/31/17: $1.379 billion, $7.72/share. (E) Pro forma numbers for '06 & '07.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	85
Earnings Predictability	90

CAUSE NO. 45032 S4

OUCC WORKPAPER

OF

EDWARD R. KAUFMAN

June 18, 2018

Schedule 1
Adjustment Summary

Indiana American Water Company
IURC Cause No. 45032 - Tax Cuts and Jobs Act of 2017 - Impacts and Possible Rate Implications
Operating Income Statement Per Most Recent Indiana American General Rate Case - Cause No. 44450
at 35% Federal Tax with Adjustment for Estimated TCJA Change to Tax Expense

		A		B	C = A + B
		Indiana American Most Recent Rate Case - Cause No. 44450 Appendix A - Test Year Certification Filing Rate Case Update as of 11-30-2015		Estimated TCJA Change	
Line Number	Description	at 35% Federal Tax	Schedule Reference	For 26.25% Tax Expense	Adjusted
1.	Revenues	$ 207,529,092	Line 13, Proposed Rates	$ (7,059,283)	$ 200,469,809
2.	O&M	$ 68,411,812	Line 42, Proposed Rates	$ (59,714)	$ 68,352,098
3.	General Tax	16,780,253	Lines 48-52, Proposed Rates	(107,171)	16,673,082
4.	Depreciation and Amortization	44,961,251	Lines 44-45, Proposed Rates		44,961,251
5.	State Income Tax Expense	4,469,550	Line 58, Proposed Rates	(474,638)	3,994,912
6.	Federal Income Tax Expense	18,932,392	Line 61, Proposed Rates	(6,417,760)	12,514,632
7.	Investment Tax Credits	(218,748)	Line 64, Proposed Rates		(218,748)
8.	Net Utility Operating Income	$ 54,192,582	Line 68, Proposed Rates	$ -	$ 54,192,582

Lines 9. through 18. added

9.	Annual Deferral (DR 1-1)	$ 10,544,252.00
10.	Deferred revenues per month	$ 878,687.67
11.	Assume an order is issued October 1	
12.	Months of deferral	5.00
13.	Benefits of deferral (Line 10 * Line 12)	$ 4,393,438.33
14.	Value of IA request annual (Line 9 + Line 1)	$ 3,484,968.86
15.	Value of IA request per month	$ 290,414.07
16.	Assume new rates go into effect May 1	
17.	Months of request deferral	8
18.	Benefits of proposed deferral	$ 2,323,312.57