

American Water: sequencing a regulated growth plan under merger uncertainty

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A strategy case for graduate students and utility leaders

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Company: American Water Works Company, Inc. (NYSE: AWK)

A plan with two engines

American Water's September 2026 investor presentation laid out a large standalone growth plan: \$17.0-17.5 billion of regulated system investment and \$2.0-2.5 billion of regulated acquisitions from 2026 through 2030, or \$19-20 billion in total. The longer 2026-2035 plan was \$46-48 billion. The company said the five-year plan included an estimated \$2 billion for PFAS-related capital, primarily in 2026-2028, and \$1.5 billion related to the Lead and Copper Rule Improvements (LCRI). These are management estimates, not project-level cash flows or guaranteed regulatory recovery. [S2]

The work is already underway. The Q2 2026 filing says the company invested \$1.8 billion in the first half, including \$1.4 billion in capital investment and \$346 million for regulated acquisitions. It planned about \$3.7 billion of growth investment across the footprint in 2026, including acquisitions. The filing reports about 52,700 acquired customers and about 9,000 new customers from organic growth in the first half. A separate earnings release rounded acquired additions to approximately 52,000 customer connections. [S1; S6]

The acquisition program is not just a distant aspiration. As of June 30, American Water reported 19 pending regulated-acquisition agreements, excluding the proposed Essential Utilities merger, totaling \$236 million and about 56,600 additional customers. By September 4, the company's investor presentation described more than 1.5 million customer connections in its acquisition pipeline, about 79,000 connections closed year to date, and 21 pending agreements totaling \$183 million and about 35,500 connections. The September presentation excluded Essential from those figures. A pipeline is not an approved program or a forecast of completed deals. [S1; S2]

A merger still in process

American Water and Essential Utilities had signed a proposed stock-for-stock merger agreement in 2025. As of the Q2 filing, Essential would become a wholly owned subsidiary only if the merger closed; required state approvals and other conditions remained. The companies expected a close by the end of Q1 2027, but that timing was not assured. The federal Hart-Scott-Rodino waiting period expired in August, satisfying one condition. [S1; S7]

On September 15, American Water, Essential and other parties filed a **non-unanimous settlement petition** in Pennsylvania. One or more parties did not join. Administrative law judges would review the petition and issue a recommendation before the Pennsylvania commission considered approval. It was not a final order. A September 18 communication from American Water's CEO said merger integration planning continued, but did not report that the merger had closed or that a combined capital plan had been approved. [S3; S4]

The September investor presentation labeled the 2026-2030 capital plan standalone. It did not disclose how the plan would change if the Essential transaction closed, or whether particular projects would be accelerated, deferred or reprioritized. [S2]

Recovery, affordability and financing

American Water described an estimated mix of capital recovery through infrastructure-surge mechanisms, future test years and traditional rate cases. The presentation did not provide a state-by-state schedule for recovering the entire five-year plan. Regulatory decisions remain jurisdiction-specific. [S2]

For example, a September 9 filing by American Water Works Company reported that the New Jersey Board of Public Utilities had approved a settlement for its New Jersey American Water subsidiary: a \$68 million annualized revenue increase effective September 15, based on a \$6.06 billion rate base. The filing said the increase was driven primarily by \$1.4 billion of incremental capital since that subsidiary's previous general rate case. That outcome describes one subsidiary and state; it does not establish recovery elsewhere. [S5]

The company reported \$907 million of operating cash flow in the first half of 2026, alongside \$1.519 billion of cash capital expenditures and \$346 million of acquisition cash outflow, net of cash acquired. It described debt and equity issuance as part of its financing plan, and said it could delay some capital investments to preserve liquidity. The September presentation showed \$191 million in cash and \$1.172 billion in revolving-credit availability at June 30; these are different resources. American Water did not disclose a binding capital ceiling or a project-level funding gap. [S1; S2]

A hypothetical planning choice

For this exercise, assume you advise a **hypothetical standalone capital-planning review** at American Water. The company has not disclosed this review as an actual process. Your task is to recommend what evidence gates could guide the next phase of its 2026-2030 plan while the Essential merger remains pending.

Should the review protect system-renewal and compliance work first, then stage discretionary expansion and new acquisitions against regulatory and execution milestones? Should it maintain the published system-investment and acquisition cadence in parallel while monitoring financing and customer affordability? Or should it use a rolling portfolio review that proceeds with ready work and revisits less-committed items as costs, approvals and merger status become clearer?

The choices need not be mutually exclusive. The public record does not rank individual projects or disclose project-level cost-to-complete, returns, schedule, deferrability or customer-bill effect. It also does not show that the merger has created a funding constraint. Your recommendation should identify which facts would change your sequencing rather than assume those facts.

Decision exhibit: what is known and what remains open

Topic	Public information at the cutoff	Still unknown in the cited sources
Five-year plan	\$17.0-17.5bn regulated system investments; \$2.0-2.5bn acquisitions; total \$19-20bn	Individual project costs, returns, schedules and deferrability
Near-term execution	H1 investment \$1.8bn; 2026 plan about \$3.7bn; pending acquisition agreements disclosed at June and September snapshots	Project-by-project variance, costs to complete, target economics and integration needs
Regulatory recovery	Company describes several recovery mechanisms; New Jersey subsidiary received a specific approved order	Timing and amount of recovery by project and state across the full plan
Essential merger	Pennsylvania non-unanimous settlement petition filed; further review and approval required	Closing date, conditions, combined capital plan and any project reprioritization
Financing	H1 cash flow and spending reported; cash, revolver availability and expected equity-forward proceeds identified	Specific project funding, future market access/cost, and any capital constraint

Assignment

Write a one-page recommendation that identifies:

1. Which types of investment should move forward now, which should be staged, and what is your reason?
2. What measurable gates should trigger acceleration, review or deferral?
3. How should the review protect water quality, reliability, resiliency and customer affordability?
4. What funding and regulatory information should be considered before changing the published plan?

You may use the company's reported data, but label estimates and forecasts as management statements. Identify at least three missing facts that could reverse your recommendation. Do not infer that a signed deal has closed, a rate request has been approved, or the proposed merger is complete.

Sources

- **S1.** [Q2 2026 Form 10-Q](#), filed July 29, 2026. See printed p.10 for cash flow; p.19 for Essential and Nexus; p.41 for H1 investment and agreements; pp.49-53 for funding/liquidity.
- **S2.** [September 2026 Investor Presentation](#), dated September 8. See PDF pp.8-9 for standalone capital plan/recovery and PDF p.13 for September acquisition snapshot.
- **S3.** [September 17 Form 8-K](#), Item 8.01, lines 74-80.
- **S4.** [September 18 Rule 425 communication](#), opening communication.
- **S5.** [September 9 Form 8-K](#), Item 8.01, lines 76-80.
- **S6.** [Q2 2026 results release](#), July 29, 2026.
- **S7.** [August 17 HSR announcement](#); the waiting period expired August 14 and satisfied one closing condition.