citizens energy group

QUARTERLY
FINANCIAL REPORT
Q1 - 2019

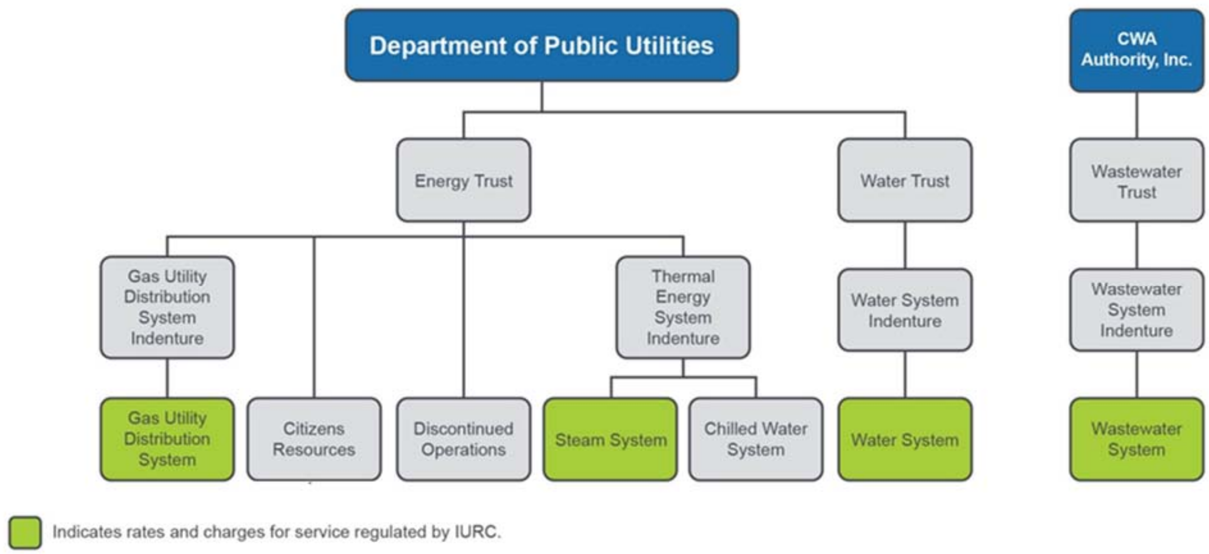
MANAGEMENT DISCUSSION AND ANALYSIS

Forward-looking Statements

Certain matters discussed in this report, except historical information, include forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates, are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements contained in this Management Discussion and Analysis would prove to be accurate. We do not undertake to update or revise any forward-looking statement as a result of future events, new information, or otherwise.

Organization Structure

The chart below provides a diagram of the organization structure of Citizens Energy Group and CWA Authority, Inc. (CWA). The organization structure is further described and explained below the chart.



Citizens Energy Group (Citizens) is the trade name in which the Department of Public Utilities of the City of Indianapolis, Indiana (the Department) acting by and through its Board of Directors (the Board) for Utilities functions. The Department was formed in 1929 pursuant to a state statute (now IC 8-1-11.1, the Act) adopted by the Indiana legislature to provide the governance structure for the City of Indianapolis to act as a successor trustee of a public charitable trust (the Energy Trust) providing natural gas utility services in the City of Indianapolis and to own and operate other utility systems serving areas within and outside the City of Indianapolis. The Department is the governmental entity that owns the Energy Trust and Water Trust assets described below. Each trust is not an entity, but rather defines the nature in which the assets are held by the Department and the obligation imposed upon the Department to manage and operate those assets in accordance with the trust purposes which include the obligations to operate the facilities in public trust for the benefit of the inhabitants of Marion County, free from the influences of partisan political control or private interests. To preserve freedom from partisan political control, the Act creates the Board of Trustees (the Trustees) as a self-perpetuating body entrusted with the power to appoint the members of the Board annually. This two-board structure provides for oversight of the Board by the Trustees. Further, the Act intentionally insulates the Department from political control by isolating the two boards from the Mayor of Indianapolis or the City's legislative bodies.

The Gas Utility Distribution System, the Thermal Energy System, Citizens Resources and certain other properties are subject to the Energy Trust. The Water System is subject to a separate public charitable trust (the Water Trust) that operates in substantially the same manner as the Energy Trust.

The Wastewater System is owned by CWA, a separate nonprofit corporation, which through an interlocal agreement entered into by and among Citizens, the City of Indianapolis, and the Sanitary District of the City (the "District"), acting by and through its Board of Public Works, pursuant to Indiana Code 36-1-7, has the power to exercise all rights and powers of Citizens, the City, and the District in connection with the provision of wastewater utility services, excluding in the case of the City and the District, taxing power and taxing authority. CWA's board of directors comprises the same individuals who serve on the Board. The Wastewater System is managed by employees of Citizens under an operating agreement between Citizens and CWA. CWA is subject to a separate public charitable trust (the Wastewater Trust) that operates in substantially the same manner as the Energy Trust and the Water Trust.

Separate indentures exist to issue debt obligations for the Gas Utility Distribution System, the Thermal Energy System, the Water System, and the Wastewater System. Each indenture captures only the revenues from the respective System, pays the operating expenses of that System and then debt service on revenue bonds of that System. This structure is designed to achieve the desired separation of each System from other Systems or business segments owned or operated by Citizens and CWA. Each indenture permits Citizens or CWA, as applicable, authority to use residual revenues for other purposes permitted by the language of the respective indenture. Citizens' water indenture and CWA's wastewater indentures, however, permit only the use of the excess revenues for the water and wastewater systems, respectively.

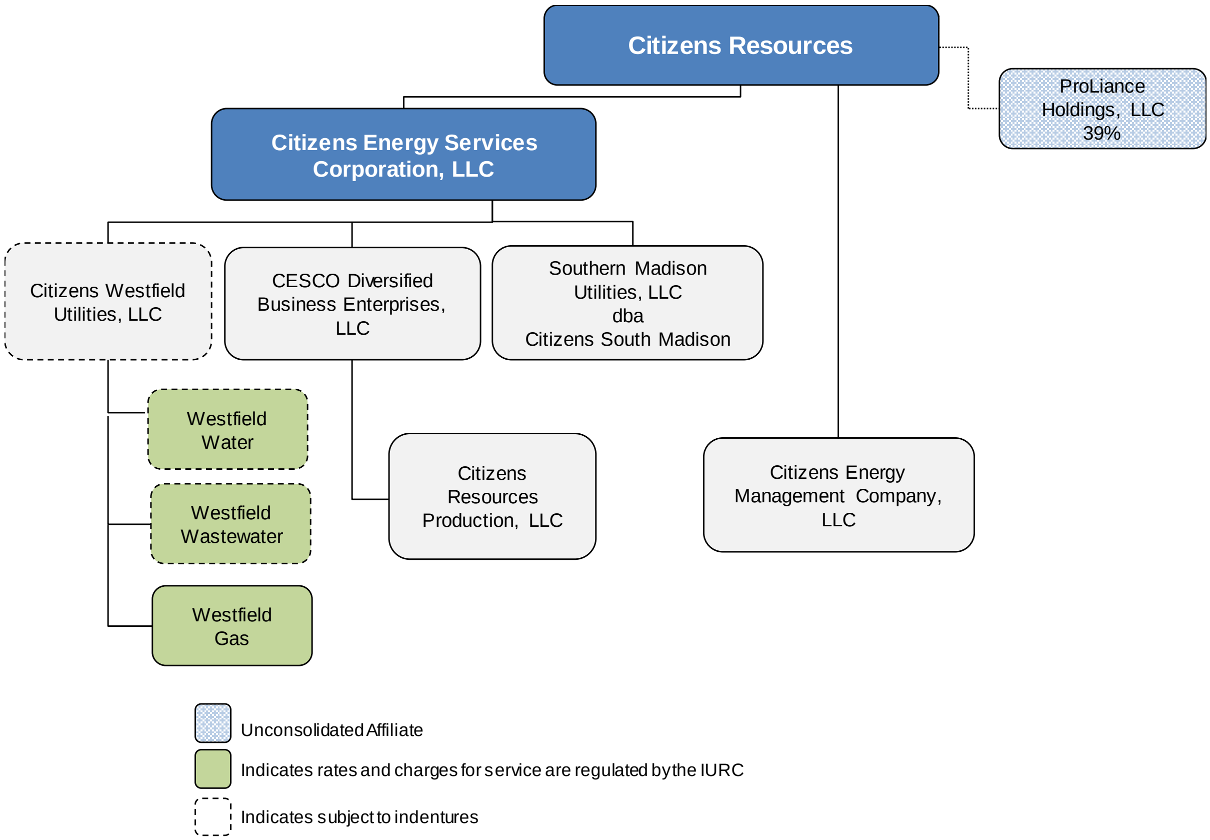
In addition as described above, each trust (i.e., the Energy Trust, the Water Trust, and the Wastewater Trust) exists separately from the other trusts. Thus, there are three separate public charitable trusts, each with a governmental entity serving as the trustee (the Energy Trust and the Water Trust assets being owned by the Department and the Wastewater Trust assets being owned by CWA). These separate trusts are designed to insulate one trust from liability for obligations of another trust, based on basic trust principles that two separate trusts do not become jointly liable solely because the same entity is the trustee of both.

The result of the foregoing is that Citizens and CWA have five distinct cash flow sources in which debt is isolated: (1) the Gas Utility Distribution System and the Gas Utility System;[1] (2) the Thermal Energy System; (3) the Water System; (4) the Wastewater System; (collectively, the four Systems) and (5) Citizens Resources. The cash flow for the four Systems is governed by the respective indentures for each System, which restricts the use of income and revenues of a respective System to the payment of operating expenses and debt service of the respective System before allowing any other use of funds by the System. The fifth source, Citizens Resources is a separate corporation whose stock is owned by the Department in its capacity as trustee of the Energy Trust. The preservation of the corporate organization form of Citizens Resources and its ability to operate for-profit businesses in furtherance of the Energy Trust purposes was specifically authorized by the Act. The assets, liabilities and operations of Citizens Resources are by design isolated within the separate corporate structure of Citizens Resources, as a subsidiary corporation of Citizens, and each of the direct and indirect subsidiaries of Citizens Resources is a limited liability company or corporation designed to limit the liability of the immediate parent to its investment in the subsidiary.[2] Those structures do not insulate the parent from liability for an express assumed contractual liability or guaranty or for the parent's own acts or omissions. In addition to the separate trusts for the Water System and the Wastewater System, those structures along with certain provisions of the Operating Agreements of such subsidiaries of Citizens Resources are the primary protection of Citizens' cash flow from any financial losses in Citizens Resources or its subsidiaries and affiliates.[3] Profits of Citizens Resources may roll up to Citizens through dividends declared by the board of Citizens Resources, but Citizens' exposure to liabilities of Citizens Resources should be limited by its corporate structure (and by that of its subsidiaries) and thus not imposed as a burden on the cash flows available in any System. See below for a diagram of Citizens Resources' organizational structure.

[1] The 1986 Gas Utility System (GUS) bonds were paid in full on June 1, 2018.

[2] Under public policy reflected in state law governing corporations and limited liability companies ("LLCs"), the parent stockholder of a subsidiary corporation or the parent member of a subsidiary LLC is given substantial protection against liability for the acts or debts of the subsidiary, subject to the established inherent limitations of these structures under such applicable state law.

[3] Since Citizens includes the results of operations of Citizens Resources and its subsidiaries and affiliates in its combined financial statements, an accounting loss within Citizens Resources will be reflected in Citizens' combined financial statements. This accounting result, though, does not create the basis upon which the liabilities of Citizens Resources or its subsidiaries or affiliates can be imposed upon Citizens or the cash flows held under any Indentures.



FINANCIAL RESULTS

The tables and discussion below summarize the financial results for each segment (in millions) and present an analysis of the results of our operations for the three months ended December 31, 2018 and 2017. Because of the seasonal nature of the various business units, results of operations for the period ended December 31, 2018 are not necessarily indicative of the results of operations to be expected for the full fiscal year. For a more detailed understanding of these results, see the following notes to the condensed combined financial statements:

- Note 2D – Investment in Unconsolidated Affiliates
- Note 3 – Long-Term Debt
- Note 6 – Financial Segment Information
- Note 8 – Manufacturing Discontinuation of Production And Related Asset Retirement Obligations
- Note 9 – Rate and Regulatory Matters, Wastewater

SHARED SERVICES

Shared services is comprised of various administrative and operational departments that provide support services to each of Citizens and CWA business segments, certain affiliates and the combined enterprise as a whole, and allocates the associated cost of the services to the appropriate segment. Management reviews the allocation methodology for shared services on a regular basis and refines the methodology as necessary.

	Three Months Ended Dec 31		
	2018	2017	Change
Shared Services Expenses	$ 24.8	$ 24.8	$ -

These costs have been allocated to the appropriate business units and are reflected in the explanations that follow.

GAS

	Three Months Ended Dec 31		
	2018	2017	Change
Operating revenues	$ 81.0	$ 81.7	$ (0.7)
Cost of goods sold	38.8	38.1	0.7
Margin	42.2	43.6	(1.4)
Other operating expenses	24.5	24.2	0.3
Operating income	17.7	19.4	(1.7)
Other income (expense), net	0.1	0.1	-
Interest charges	2.7	3.1	(0.4)
Segment income	$ 15.1	$ 16.4	$ (1.3)
Volume sales, million Dth			
Retail	10.0	9.9	0.1
Transportation	5.0	5.6	(0.6)
Power generation and other	3.4	5.0	(1.6)
Cost of gas sold, per Dth	$ 3.87	$ 3.86	$ 0.01
Heating degree days	2,047	1,944	103

Three Months Ended December 31, 2018 as Compared with 2017

Margin – Gas margin was $1.4 million lower than prior period, principally the result of lower retail margin net of normal temperature adjustment (NTA).

STEAM

	Three Months Ended Dec 31		
	2018	2017	Change
Operating revenues	$ 17.3	$ 19.2	$ (1.9)
Cost of goods sold	8.0	10.0	(2.0)
Margin	9.3	9.2	0.1
Other operating expenses	6.8	6.3	0.5
Operating income	2.5	2.9	(0.4)
Other income (expense), net	-	-	-
Interest charges	0.7	0.8	(0.1)
Segment income	$ 1.8	$ 2.1	$ (0.3)
Volume sales, million therms	15.7	15.3	0.4
Heating degree days	2,047	1,944	103

Three Months Ended December 31, 2018 as Compared with 2017

Other operating expenses – The increase of $0.5 million was primarily attributable to higher employee healthcare expenses.

CHILLED WATER

	Three Months Ended Dec 31		
	2018	2017	Change
Operating revenues	$ 5.8	$ 6.3	$ (0.5)
Cost of goods sold	1.8	2.2	(0.4)
Margin	4.0	4.1	(0.1)
Other operating expenses	3.6	4.1	(0.5)
Operating income	0.4	-	0.4
Other income (expense), net	0.1	-	0.1
Interest charges	0.3	0.3	-
Segment income	$ 0.2	$ (0.3)	$ 0.5
Volume sales, million ton hours	18.4	20.6	(2.2)
Cooling degree days	86	47	39

Three Months Ended December 31, 2018 as Compared with 2017

Other operating expenses – The $0.5 million decrease was driven by lower employee healthcare and post-employment benefit expenses.

WATER

	Three Months Ended Dec 31		
	2018	2017	Change
Operating revenues	$ 47.8	$ 48.5	$ (0.7)
Other operating expenses	32.6	32.0	0.6
Operating income	15.2	16.5	(1.3)
Other income (expense), net	0.5	1.0	(0.5)
Interest charges	9.5	11.8	(2.3)
Segment income	$ 6.2	$ 5.7	$ 0.5
Volume sales, billion gallons	8.8	8.9	(0.1)

Three Months Ended December 31, 2018 as Compared with 2017

Operating revenues – Decreased revenues of $0.7 million are primarily attributable to lower consumption among residential and commercial customers.

Other operating expenses – The $0.6 million increase was largely driven by higher employee costs and depreciation.

Other income (expense), net – The decrease of $0.5 million was due to prior year realized gains on certain investments.

Interest charges – The decrease of $2.3 million principally results from savings attributed to refunding of the Water Series 2011F bonds in October 2018 and increased capitalized interest.

WASTEWATER

	Three Months Ended Dec 31		
	2018	2017	Change
Operating revenues	$ 67.1	$ 70.5	$ (3.4)
Other operating expenses	45.5	43.0	2.5
Operating income	21.6	27.5	(5.9)
Other income (expense), net	1.0	0.5	0.5
Interest charges	17.4	16.7	0.7
Segment income	$ 5.2	$ 11.3	$ (6.1)
Treatment volume sales, billion gallons	8.4	7.3	1.1
Strength surcharge, million pounds	13.8	9.9	3.9

Three Months Ended December 31, 2018 as Compared with 2017

Operating revenues – Slightly higher volumes were more than offset by lower revenue from authorized alternative revenue programs.

Other operating expenses – The $2.5 million increase was primarily driven by depreciation expense due to an increase in depreciable assets and increased payments in lieu of taxes (PILOT) per the established PILOT schedule.

Other income (expenses), net – The $0.5 million increase is principally due to additional interest income on bond restricted funds.

Interest charges – The increase of $0.7 million was largely attributable to lower capitalized interest expense for capital projects, offset slightly by lower interest costs resulting from decreased outstanding debt as a result of principal payments.

RESOURCES

	Three Months Ended Dec 31		
	2018	2017	Change
Operating revenues	$ 8.4	$ 9.3	$ (0.9)
Cost of goods sold	0.6	0.6	-
Margin	7.8	8.7	(0.9)
Other operating expenses	5.4	5.8	(0.4)
Operating income	2.4	2.9	(0.5)
Other income (expense), net	(0.1)	0.1	(0.2)
Equity in earnings (loss) of affiliates	-	(1.9)	1.9
Interest charges	0.6	0.7	(0.1)
Segment income	$ 1.7	$ 0.4	$ 1.3

Three Months Ended December 31, 2018 as Compared with 2017

Margin – Margin was $0.9 million lower than prior year primarily due to the sale of the Plummer Oil Field in September 2018.

Other operating expenses – Operating expenses are $0.4 lower primarily due to the sale of the Plummer Oil Field in September 2018, offset somewhat by an increase in expenses at the Westfield Utilities.

Equity in earnings (loss) of affiliates – $1.9 million higher due to the prior year impairment charge recorded for an affiliate joint venture investment.

OTHER

	Three Months Ended Dec 31		
	2018	2017	Change
Operating revenues	$ -	$ -	$ -
Operating expenses	-	-	-
Operating income (loss)	-	-	-
Other income (expense), net	(0.4)	(0.1)	(0.3)
Interest charges	-	-	-
Income (loss) from discontinued operations	(0.1)	(0.8)	0.7
Segment income (loss)	$ (0.5)	$ (0.9)	$ 0.4

In the table above, Other includes advertising and philanthropic costs that are not recoverable through rates and are funded by contributions from non-regulated segments. The former Manufacturing business segment has been reported as Discontinued Operations and is also included in Other.

Three Months Ended December 31, 2018 as Compared with 2017

Other income (expense), net – $0.3 million higher primarily driven by increases in brand advertising costs.

Income (loss) from discontinued operations – $0.7 million lower largely due to decreases in Asset Retirement Obligation accretion expense.

LIQUIDITY AND CAPITAL RESOURCES

Debt and Liquidity

Please see Notes 3 and 4 to the condensed combined financial statements for information regarding the changes to Citizens' and CWA's outstanding debt obligations and liquidity facilities, respectively.

Capital Spending

For the three months ended December 31, 2018, capital expenditures, on an accrual basis, increased by $12.2 million to $69.3 million from $57.1 million during the same period last year. This increase is summarized in the table below (in millions). Certain accrued expenditures, including all capitalized interest, have been included in Other for segment presentation of Capitalized Expenditures, while the capitalized interest amounts on the segmented statements of financial position are reflected as Property, Plant, and Equipment in their respective segments.

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
Q1 2019	**$ 5.9**	**$ 0.6**	**$ 0.5**	**$ 11.9**	**$ 42.6**	**$ 3.2**	**$ 4.6**	**$ 69.3**
Q1 2018	6.3	1.7	0.2	10.8	31.4	1.2	5.5	57.1
	$ (0.4)	$ (1.1)	$ 0.3	$ 1.1	$ 11.2	$ 2.0	$ (0.9)	$ 12.2

Citizens' and CWA's projected capital spending requirement of $325.6 million for 2019 is summarized as follows (in millions):

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
2019 Projection	**$ 22.9**	**$ 2.8**	**$ 2.6**	**$ 45.9**	**$ 200.6**	**$ 18.3**	**$ 32.5**	**$ 325.6**

Gas continues to invest in mains and services to maintain its commitment to modernization of its underground gas distribution system. Gas had cash and cash equivalents of $66.9 million at December 31, 2018. Gas expects to meet its capital spending requirements in 2019 through cash flows from operations and the temporary seasonal use of its credit lines.

Citizens Thermal's Steam business segment continues to invest in distribution assets and production equipment. Chilled Water capital spending plans similarly include investments in distribution assets and production equipment. At December 31, 2018, cash and cash equivalents of Steam and Chilled Water amounted to $9.4 million and $27.0 million, respectively. Steam expects to meet its capital spending requirements in 2019 through cash flows from operations and temporary seasonal use of its credit line while Chilled Water expects to meet its 2019 capital spending requirements through cash flows from operations.

The Water business segment has a capital improvement plan to address system reliability, maintain compliance with regulations, and implement various distribution system and treatment plant improvements. Water had cash and cash equivalents of $50.9 million at December 31, 2018. Water expects to meet its capital spending requirements in 2019 through a combination of cash flows from operations, and use of its line of credit.

The Wastewater business segment has a capital improvement plan to meet guidelines of the Combined Sewer Overflow Long-Term Control Plan and the overall needs of the Wastewater System. See Note 9 to the condensed combined financial statements for additional information regarding the Combined Sewer Overflow Long-Term Control Plan. The capital improvement plan also includes other improvements to and expansion of the Wastewater System. Wastewater had cash and cash equivalents of $22.6 million at December 31, 2018. Wastewater expects to meet its capital spending requirements in 2019 through a combination of cash flows from operations, as well as from balances remaining from issuance of the Series 2017A State Revolving Fund bonds ($39.5 million; recorded in bond restricted funds), and its line of credit. See Note 8 – Wastewater, to the condensed combined financial statements, for a discussion of regulatory matters affecting the liquidity and capital resources of the Wastewater business segment.

Resources' capital spending projection for 2019 includes activities at Citizens South Madison, Westfield Gas, Westfield Water, and Westfield Wastewater. Resources expects to meet its capital spending requirements in 2019 through a combination of cash flows from operations, proceeds from the issuance of the Citizens Westfield Water Utility Revenue Bonds Series 2019A and Citizens Westfield Wastewater Utility Revenue Bonds Series 2019A (see Note 3 to the condensed combined financial statements), and its lines of credit.

Citizens Energy Group and Subsidiary and CWA Authority Inc.

Condensed Combined Statements of Financial Position (Unaudited)

(In Thousands)

	At December 31, 2018	At September 30, 2018
ASSETS		
Property, plant, and equipment		
Plant in service	$ 6,617,652	$ 6,592,903
Accumulated depreciation	3,409,226	3,372,718
	3,208,426	3,220,185
Construction work in progress	439,896	393,977
Total property, plant, and equipment	3,648,322	3,614,162
Intangible assets, net	60,672	61,598
Investments		
Bond restricted funds	259,256	349,204
Other	22,180	22,559
Total investments	281,436	371,763
Current assets		
Cash and cash equivalents	212,026	249,923
Accounts receivable, less allowance for doubtful accounts of $2,164 and $2,282, respectively	89,842	74,164
Accrued utility revenue	33,668	24,324
Natural gas in storage	30,075	38,458
Materials and supplies	11,258	11,145
Other current assets	3,751	3,759
Current assets directly related to discontinued operations	652	1,761
Total current assets	381,272	403,534
Deferred charges	46,746	48,850
TOTAL ASSETS	**$ 4,418,448**	**$ 4,499,907**
CAPITALIZATION AND LIABILITIES		
Capitalization and non-current liabilities		
Retained earnings	$ 512,075	$ 482,529
Accumulated other comprehensive loss	(71,328)	(71,348)
Long-term debt (excluding current maturities)	3,181,107	3,214,522
Retirement benefits	118,149	121,363
Contributions in aid of construction	240,884	235,057
Other long-term liabilities	56,217	49,218
Non-current liabilities directly related to discontinued operations	22,379	22,790
Total capitalization and non-current liabilities	4,059,483	4,054,131
Current liabilities		
Current maturities of long-term debt	88,286	124,480
Short-term borrowings	50,000	56,500
Accounts payable and accrued expenses	136,769	171,718
Accrued taxes	52,031	60,530
Customer deposits	25,547	24,236
Other current liabilities	5,915	7,251
Current liabilities directly related to discontinued operations	417	1,061
Total current liabilities	358,965	445,776
Commitments and contingencies (see note 10)		
TOTAL CAPITALIZATION AND LIABILITIES	**$ 4,418,448**	**$ 4,499,907**

The accompanying notes are an integral part of these condensed combined financial statements.

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

Condensed Combined Statements of Operations and Comprehensive Income (Unaudited)

(In Thousands)

	Three Months Ended December 31, 2018	2017
Operating revenues	$ 224,637	$ 232,622
Operating expenses		
Cost of goods sold	46,963	48,605
Operations and maintenance	63,015	62,000
Depreciation and amortization	41,053	39,174
Taxes	13,898	12,986
Total operating expenses	164,929	162,765
Operating income	59,708	69,857
Other income (expense), net		
Interest income	1,520	1,178
Non-operating post-employment benefits, net	(37)	(702)
Other	(174)	452
Total other income, net	1,309	928
Income before equity in earnings of affiliates and interest charges	61,017	70,785
Equity in losses of affiliates	(40)	(1,946)
Interest charges		
Interest on long-term debt	36,727	39,407
Other interest, including net premium amortization	(5,391)	(5,909)
Total interest charges	31,336	33,498
Income from continuing operations	29,641	35,341
Loss from discontinued operations	(95)	(799)
Net income	**$ 29,546**	**$ 34,542**
Retirement benefit liability changes:		
Amortization of prior service credit	(545)	(479)
Amortization of loss	1,032	1,927
Total retirement benefit liability changes	487	1,448
Unrealized (loss) gain on available-for-sale investments	(467)	(388)
Total other comprehensive income	20	1,060
Total comprehensive income	**$ 29,566**	**$ 35,602**

The accompanying notes are an integral part of these condensed combined financial statements.

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

Condensed Combined Statements of Cash Flows (Unaudited)

(In Thousands)

	Three Months Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 29,546	$ 34,542
Depreciation and amortization	38,209	37,121
Equity in losses (earnings) of affiliates, net of distributions	40	2,571
Allowance for doubtful accounts	1,097	1,472
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(26,119)	(36,409)
Natural gas in storage	8,383	7,141
Accounts payable and accrued expenses	(39,775)	(28,556)
Retirement benefits	(2,727)	(2,124)
Other operating activities	5,002	(7,455)
Change in net liabilities of discontinued operations	52	816
Net cash provided by operating activities	13,708	9,119
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(73,130)	(112,167)
Purchase of investment securities	(61,004)	(61,557)
Sale and maturity of investment securities	150,952	131,416
Acquisition of business, net of cash acquired	-	(3,364)
Other investing activities	(236)	2,616
Net cash provided by (used in) investing activities	16,582	(43,056)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank line of credit	-	20,000
Principal payments of long-term debt and bond refunding	(481,319)	(51,495)
Proceeds from bond refunding	413,987	-
Bond issuance costs	(2,024)	(32)
Contributions in aid of construction	1,272	2,437
Other financing activities	(103)	(140)
Net cash used in financing activities	(68,187)	(29,230)
Net change in cash and cash equivalents	(37,897)	(63,167)
Cash and cash equivalents at beginning of fiscal year	249,923	299,632
Cash and cash equivalents at end of fiscal period	$ 212,026	$ 236,465
Supplemental Cash Flows Information - Interest paid	$ 52,690	$ 52,134
Non-cash Investing and Operating Activities		
Construction work-in-progress accrued at period end	$ 38,291	$ 33,282

The accompanying notes are an integral part of these condensed combined financial statements.

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

Condensed Combined Statements of Equity (Unaudited)
(In Thousands)

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at September 30, 2018	**$ 482,529**	**$ (71,348)**	**$ 411,181**
Comprehensive income			
Net income	29,546	-	29,546
Unrealized gain (loss) on available-for-sale investments		(467)	(467)
Retirement benefit liability changes		487	487
Total comprehensive income	29,546	20	29,566
Balance at December 31, 2018	**$ 512,075**	**$ (71,328)**	**$ 440,747**

The accompanying notes are an integral part of these condensed combined financial statements.

NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS (UNAUDITED)

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

1. NATURE OF OPERATIONS AND PRESENTATION

A. Nature of Operations

Operations of Citizens Energy Group and Subsidiary (Citizens or the Company) include activities in five business segments: Gas, Steam, Chilled Water, Water, and Resources. Steam and Chilled Water comprise the Thermal Energy System (Citizens Thermal or Thermal). Operations of CWA Authority, Inc. (CWA) include activities for the Wastewater business segment. Resources includes an affiliate joint venture interest as well as several wholly owned subsidiaries, the most significant of which is Citizens Energy Services Corporation, LLC (CESCO) which serves as a holding company for several subsidiaries, including Citizens Westfield Utilities, LLC (CWU) and CESCO Diversified Business Enterprises, LLC. The rates and charges for gas, steam, water and wastewater services are regulated by the Indiana Utility Regulatory Commission (IURC).

CWU serves as a holding company for the gas, water, and wastewater utilities for the Westfield service area, which includes Westfield Gas, LLC (Westfield Gas), Citizens Water of Westfield, LLC (Westfield Water), and Citizens Wastewater of Westfield, LLC (Westfield Wastewater), all of which operate as regulated investor-owned utilities.

CESCO Diversified Business Enterprises, LLC serves as a holding company for Citizens Resources Production, LLC, which operates as an oil producer.

B. Basis of Presentation

The accompanying condensed combined interim financial statements are unaudited and should be read in conjunction with the combined annual financial statements, and the notes thereto, included in the Citizens Energy Group Management Discussion and Financial Report for the year ended September 30, 2018. Because of the seasonal nature of the various business segments, the results of operations for the period ended December 31, 2018 are not necessarily indicative of the results of operations to be expected for the full fiscal year.

The accompanying financial statements reflect the combined operations of commonly controlled entities, including Citizens, CWA, and certain non-profit instrumentalities. The accounting records conform to the accounting standards prescribed by the Federal Energy Regulatory Commission, National Association of Regulatory Utility Commissioners and accounting principles generally accepted in the United States of America (GAAP). The effects of all intercompany transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Derivatives and Hedging

In fiscal years 2019 and 2018, Citizens entered into certain derivative and economic hedging transactions with the objective of decreasing the volatility associated with fluctuating natural gas prices. Through a combination of fixed-price purchases, caps, collars and storage, Citizens Gas mitigates the risk of price volatility on approximately 80 percent of its anticipated system supply gas purchases. Citizens' Hedging Transaction Cost Policy sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. These instruments, in conjunction with physical gas supply contracts, are designated to cover estimated gas customer requirements. Such energy contracts, to the extent they are not considered "normal" as defined by FASB guidance, are recognized at fair value as derivative assets or liabilities on the Condensed Combined Statements of Financial Position. Gains/losses and fees associated with these derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. Accordingly, the offset to the change in fair value of these derivatives is recorded as a regulatory asset or liability. The impact of commodity contracts was not material to the condensed combined financial statements in any of the periods presented.

B. Fair Value Measurements

Financial Accounting Standards Board (FASB) guidance requires additional disclosures about Citizen's and CWA's financial assets and liabilities that are measured at fair value. Assets and liabilities recorded at fair value in the Condensed Combined Statements of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in FASB guidance and explained in the following paragraphs, are directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities:

Level 1—Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value generally are financial derivatives, investments and equity securities listed in active markets. The fair values of the bond restricted funds, Grantor Trust investments, and commodity contracts have been determined using quoted prices in an active market.

Level 2—Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. Fair value assets and liabilities that are generally included in this category are derivatives with fair values based on inputs from actively quoted markets.

Level 3—Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents the financial assets measured at fair value on a recurring basis, based on the hierarchy, as of December 31, 2018 and September 30, 2018 (in thousands). There were no financial liabilities at December 31, 2018 and September 30, 2018.

	December 31, 2018 Fair Value Measurements Using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	**$ 42,407**	**$ -**	**$ -**
Bond restricted funds	**246,243**	**-**	**-**
Grantor Trust investments	**15,212**	**-**	**-**
Derivative assets	**107**		**-**
Total financial assets measured at fair value	**$ 303,969**	**$ -**	**$ -**

	September 30, 2018 Fair Value Measurements Using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	$ 42,243	$ -	$ -
Bond restricted funds	336,191	-	-
Grantor Trust investments	15,355	-	-
Derivative assets	199	-	-
Total financial assets measured at fair value	$ 393,988	$ -	$ -

Under the terms of various trust indentures, Citizens and CWA are required to maintain bond restricted funds. These bond restricted funds are invested in short-term securities, commercial paper, a guaranteed investment contract, and cash equivalents. Due to the nature of these investments, cost approximates fair market value of $259.3 and $349.2 million at December 31, 2018 and September 30, 2018, respectively. In accordance with fair value disclosure guidance, $13.0 million of investments in a guaranteed investment contract are excluded in determining the fair value of bond restricted funds pursuant to ASC 825-10-50-8c at December 31, 2018 and September 30, 2018.

Included in bond restricted funds at December 31, 2018 and September 30, 2018 are, $39.5 million and $67.5 million, respectively, of proceeds from CWA's First Lien Wastewater Revenue Bonds, Series 2017A which are held by the Indiana Finance Authority (IFA) until certain conditions for disbursement are met. Such funds are invested in money market funds together with additional amounts committed to other participants in the IFA's Wastewater Revolving Loan Program due to the rapid disbursement of such proceeds by the IFA to such participants. Gross deposits to the bond restricted fund investments during the first three months of fiscal years 2019 and 2018 were $55.3 million and $60.9 million, respectively.

The Grantor Trust investments are a variety of debt and equity mutual funds invested per the investment policy of the Grantor Trust.

Gains/losses and fees associated with the commodity based derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. There were no transfers between levels during the year.

Management has estimated the fair value of the outstanding debt securities based on the coupons of the outstanding bonds and the current market yields. These are Level 2 fair value measurements. Management established the corresponding price to the call date as well as the price to maturity. The fair value was determined based on the lower of these two prices. At December 31, 2018 and September 30, 2018, the carrying value of outstanding debt approximates fair value.

Customers' advances for construction have a carrying value at December 31, 2018 for Water, Wastewater, and Resources of $13.3 million, $3.7 million, and $4.1 million, respectively, versus the carrying values at September 30, 2018 for Water, Wastewater, and Resources of $13.4 million, $2.9 million, and $4.0 million, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2028 and amounts not paid by the respective contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

C. Comprehensive Income (Loss)

Comprehensive income (loss) is primarily a measure of all changes in equity of an enterprise which result from the transactions or other economic events during the period. This information is reported in the Condensed Combined Statements of Comprehensive Income. Citizens' components of accumulated other comprehensive (loss) income (AOCI) include the impact of pension and other post-employment benefits and mark to market valuation adjustments for available for sale investments. The following table presents changes in accumulated other comprehensive (loss) income by component for the three months ended December 31, 2018 (in thousands):

	Pension Plan	Other Postemployment Benefits	Other	Total
Accumulated other comprehensive (loss) income at September 30, 2018	$ (78,191)	$ 7,056	$ (213)	$ (71,348)
Other comprehensive income (loss) before reclassifications	-	-	-	-
Amounts reclassified from accumulated other comprehensive income (loss)	930	(443)	(467)	20
Net current-period other comprehensive income (loss)	930	(443)	(467)	20
Accumulated other comprehensive (loss) income at December 31, 2018	$ (77,261)	$ 6,613	$ (680)	$ (71,328)

D. Investment in Unconsolidated Affiliates

Unconsolidated affiliates at December 31, 2018 include ProLiance Holdings, LLC (ProLiance), a jointly-owned affiliate of Resources (39%) and Vectren Energy Marketing & Services, Inc., (61%), which is accounted for under the equity method. In December 2017, Resources purchased ProLiance's 50% ownership share of Heartland Group Pipeline (HGP), previously an unconsolidated affiliate, for a price representing 50% of the net book value of HGP, resulting in Resources owning 100% of HGP. Accordingly, the financial results of HGP are consolidated in the Resources segment beginning December 1, 2017. The transaction was accounted for as a business acquisition. Fair value of the net assets acquired approximated their book value; therefore there was no excess purchase price allocated to goodwill or other intangible assets acquired. To facilitate the purchase of HGP, Gas advanced Resources approximately $15.4 million in cash during December 2017. Upon receipt of regulatory approval in September 2018, the property, plant, and equipment of HGP was transferred from Resources to Gas as HGP's assets are ultimately used exclusively by Gas in its operations. After settlement of any outstanding liabilities, the remaining assets of Heartland Gas Pipeline will be dissolved in fiscal 2019. Resources expects any gain or loss on dissolution of HGP to be immaterial. Resources also recognized a $1.9 million impairment of its remaining affiliate in December 2017. Investment in unconsolidated affiliates is presented as part of "Investments, Other" in the condensed combined statements of financial position at December 31, 2018 and September 30, 2018.

E. New Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will replace existing accounting guidance for leases. The new standard requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. ASU 2016-02 also requires qualitative and specific quantitative disclosures to supplement amounts recorded in the financial statements. The Company has formed an internal stakeholder group and is in the process of developing a complete lease inventory, as well as identifying, assessing and documenting technical accounting issues, policy considerations and financial reporting implications of the new standard. The Company is continuing to assess the standard's transition options and practical expedients, as well as monitoring industry implementation issues. Based on the Company's preliminary assessment, adoption of this new lease standard is not expected to have a material impact on Company's financial position, results of operations, or cash flows. The Company will adopt ASU 2016-02 beginning October 1, 2019.

F. Recently Adopted Accounting Guidance

In 2014, the FASB issued revised accounting guidance for revenue recognition from contracts with customers (ASC 606). This guidance outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The majority of the Company's revenue is in scope of the new guidance. Alternative revenue programs are excluded from the scope of this guidance and are accounted for under other relevant accounting guidance.

In preparation for adoption, the Company identified material revenue streams and reviewed representative contracts and tariffs, monitored the activities of the power and utilities industry revenue recognition task force and reviewed published positions on specific industry issues to evaluate the impact, if any, on the Company's specific contracts and conclusions. The Company applied certain practical expedients, including utilizing the portfolio approach to aggregate similar contracts for purposes of analysis, ignoring the effects of a significant financing when the period between transfer of the good or service and payment is one year or less, and recognizing revenues for certain contracts under the invoice practical expedient, which allows revenue recognition to be consistent with invoiced amounts (including unbilled estimates) provided certain criteria are met, including consideration of whether the invoiced amounts reasonably represent the value provided to customers.

The Company adopted the provisions of ASC 606 beginning on October 1, 2018 using the full-retrospective method, which requires each prior reporting period presented to be adjusted beginning with the issuance of the Company's fiscal 2019 interim financial statements. Adoption of this standard did not result in any change to the timing or pattern of revenue recognition and a cumulative retained earnings adjustment was not required.
For additional information, see Note 5 – Revenue Recognition.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (ASC 715), which revises how employers sponsoring defined benefit pension and other post-employment plans present the net periodic benefit cost in their income statement. ASC 715 requires the service cost component of net periodic benefit costs to be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period and the other components of net periodic benefit costs to be presented separately outside of operating income. The guidance also allows only the service cost component to be eligible for capitalization. Amendments are to be applied retrospectively for presentation of costs and prospectively for capitalization of service costs. The guidance allows a practical expedient which permits use of previously disclosed service costs and other costs from the pension and other postretirement benefit plan disclosure in the comparative periods as appropriate estimates when retrospectively changing the presentation of these costs in the statements of operations. The Company adopted the standard on October 1, 2018 and elected the practical expedient available under the transition guidance. The presentation changes required for net periodic benefit costs did not impact previously reported net income; however, reclassification of the other components of net periodic benefits costs resulted in a decrease in "Operations and maintenance" expense and a decrease in "Other income (expense), net" of $0.7 million for the three months ended December 31, 2017.

3. LONG-TERM DEBT

Long-term debt consisted of the following (due dates are presented on a calendar-year basis):

	(In Thousands)					
	December 31, 2018			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Gas						
Gas Utility Distribution System Series 2008C, 2nd Lien Revenue Refunding Bonds, 5.00% to 5.25%, due 2019 to 2021	**$27,085**	**$14,950**	**$552**	$ 27,085	$ 14,950	$ 653
Gas Utility Distribution System Series 2010A, 2nd Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2024	**59,495**	**480**	**1,289**	59,495	480	1,353
Gas Utility Distribution System Series 2013A, 2nd Lien Revenue Refunding Bonds, 4.125% to 5.250%, due 2027 to 2030	**54,465**		**1,211**	54,465	-	1,234
Gas Utility Distribution System Series 2017A, 2nd Lien Revenue Refunding Bonds 5.00%, due 2025 to 2027	**49,825**		**7,683**	49,825	-	7,910
Subtotal Gas Long-Term Debt	**190,870**	**15,430**	**10,735**	190,870	15,430	11,150
Thermal						
Thermal Energy System Series 2010A, First Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2019 to 2029	**530**	**510**	**5**	1,040	490	5
Thermal Energy System Series 2010B, First Lien Revenue Refunding Bonds, 5.00%, due 2019 to 2021	**14,310**	**8,390**	**751**	22,700	7,950	866
Thermal Energy System Series 2013A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2019 to 2033	**6,735**	**340**	**57**	7,075	330	59
Thermal Energy System Series 2014A, First Lien Revenue Refunding Bonds, 2.00% to 5.00%, due 2019 to 2034	**29,495**	**1,300**	**2,706**	30,795	1,255	2,774
Thermal Energy System Series 2016A, First Lien Revenue Refunding Bonds, 5.00%, due 2021 to 2029	**50,410**	**-**	**7,135**	50,410	-	7,458
Subtotal Thermal Long-Term Debt	**101,480**	**10,540**	**10,654**	112,020	10,025	11,162

(In Thousands)

	December 31, 2018			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Water						
Water Utility Series 2011C (ILPIBB 2006A)*, First Lien Net Revenue Bonds, 5.50%, due 2019 to 2022	**37,090**	**7,465**	**(36)**	37,090	7,465	(39)
Water Utility Series 2011D (ILPIBB 2007D)*, First Lien Net Revenue Bonds, 5.25%, due 2022 to 2025	**70,410**	**-**	**(57)**	70,410	-	(61)
Water Utility Series 2011F (ILPIBB 2009A)*, First Lien Net Revenue Bonds, 4.00% to 5.75%, due 2019 to 2038	**-**	**5,160**	**(4)**	410,385	5,160	(364)
Water Utility Series 2011G (ILPIBB 2011E)*, First Lien Net Revenue Bonds, 3.25% to 5.125%, due 2019 to 2041	**50,245**	**1,275**	**(42)**	50,245	1,275	(45)
Water Utility Series 2014A, First Lien Net Revenue Bonds, 3.00% to 5.00%, due 2019 to 2044	**24,700**	**530**	**1,476**	25,230	510	1,489
Water Utility Series 2014B, 2nd Lien Revenue Refunding Bonds, 2.95%, due 2022	**43,595**	**-**	**(157)**	43,595	-	(167)
Water Utility Series 2016A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2019 to 2046	**65,605**	**1,180**	**12,136**	66,785	1,140	12,266
Water Utility Series 2016B, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2038	**211,045**	**5,850**	**33,762**	216,895	3,000	34,374
Water Utility Series 2018A, First Lien Refunding Revenue Bonds, 3.50% to 5.00%, due 2019 to 2038	**359,170**	**1,975**	**50,202**	-	-	-
Subtotal Water Long-Term Debt	**861,860**	**23,435**	**97,280**	920,635	18,550	47,453
Wastewater						
CWA Wastewater Utility Series 2011A, First Lien Revenue Bonds, 2.50% to 5.25%, due 2019 to 2041	**586,600**	**14,160**	**26,862**	600,760	13,610	27,241
CWA Wastewater Utility Series 2011B, Second Lien Revenue Bonds, 5.00% to 5.25%, due 2019 to 2041	**237,245**	**5,775**	**4,132**	243,020	5,500	4,200

(In Thousands)

	December 31, 2018			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
CWA Wastewater Utility Series 2012A, First Lien Revenue Bonds, 2.75% to 5.00%, due 2019 to 2042	**170,485**	**4,025**	**14,323**	174,510	3,835	14,560
CWA Wastewater Utility Series 2014A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2019 to 2044	**217,120**	**4,340**	**18,612**	221,460	4,135	18,857
CWA Wastewater Utility Series 2015A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2019 to 2045	**148,240**	**2,815**	**20,505**	151,055	2,685	20,749
CWA Wastewater Utility Series 2016A, First Lien Revenue Bonds 2.00% to 5.00%,due 2019 to 2046	**184,180**	**3,130**	**36,320**	187,310	3,010	36,708
CWA Wastewater Utility Series 2016B, 2nd Lien Revenue Refunding Bonds, 3.00% to 5.00%,due 2019 to 2046	**41,100**	**840**	**2,199**	41,940	815	2,248
CWA Wastewater Series 2016C, First Lien Revenue Bonds (SRF), 2.00%, due 2019 to 2036	**11,035**	**540**	**(83)**	11,035	540	(85)
CWA Wastewater Series 2017A, First Lien Revenue Bonds (SRF), 3.53%, due 2019 to 2047	**156,927**	**3,256**	**(77)**	156,927	3,256	(78)
Subtotal Wastewater Long-Term Debt	**1,752,932**	**38,881**	**122,793**	1,788,017	37,386	124,400
Resources						
Citizens Westfield Utilities Series 2014A, Revenue Bonds, 90% of 3-month LIBOR plus 2.674%, due 2019	**-**	**-**	**-**	9,000**	19,454	(138)
Citizens Westfield Water Series 2014A, Revenue Bonds, 90% of 1-month LIBOR plus 1.945%, due 2019	**8,365*** **	**-**	**(9)**	-	8,365	(17)
Citizens Westfield Wastewater Series 2014A, Revenue Bonds, 90% of 1-month LIBOR plus 1.945%, due 2019	**15,270*** **	**-**	**(16)**	-	15,270	(30)
Citizens Westfield Utilities Series 2018A, Refunding Revenue Bonds, 80% of 3-month LIBOR plus 1.90%, due 2023	**9,000**	**-**	**(107)**	-	-	-
Subtotal Resources Long-Term Debt	**32,635**	**-**	**(132)**	9,000	43,089	(185)

	(In Thousands)					
	December 31, 2018			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Total Long-Term Debt	**$2,939,777**	**$ 88,286**	**$241,330**	$3,020,542	$ 124,480	$ 193,980

* Indianapolis Local Public Improvement Bond Bank (ILPIBB)
** Refinanced $9 million of Series 2014A Revenue Bonds; see below.
*** Refinanced Series 2014A Revenue Bonds for Westfield Water and Wastewater; see below.

Principal maturities of long-term debt for the next five fiscal years and thereafter are as follows (in thousands):

2019	$	33,125
2020		89,341
2021		97,235
2022		101,918
2023		149,211
Thereafter		2,557,233
Total principal maturities	$	3,028,063

Recent Debt Transaction Activity

On October 3, 2018, Citizens Water issued $361.1 million of First Lien Refunding Revenue Bonds, Series 2018A. The bonds refunded a portion of the Series 2011F bonds. The 2018A bonds were issued at a premium of $52.8 million and have principal maturities due from 2019 through 2038 with coupons ranging from 3.50% to 5.00%.

On October 15, 2018, CWU repaid $19.5 million of debt prior to its maturity date as permitted in the indenture between CWU and its lenders.

On October 26, 2018 CWU issued $9 million of Refunding Revenue Bonds Series 2018A. The 2018A bonds were purchased by a syndicate of banks including PNC bank as administrative agent and BMO Harris Bank. The bonds are non-amortizing and are subject to mandatory tender on October 26, 2023. Interest on the bonds is at a floating rate of 80 percent of 3-month LIBOR plus 1.9 percent. The Series 2018A bonds refunded $9 million of outstanding Series 2014A Revenue Bonds which were therefore classified as long-term debt at September 30, 2018.

On February 13, 2019, Citizens Westfield Water issued $20.0 million of Water Utility Revenue Bonds, Series 2019A. The 2019A bonds were issued at a premium of $0.1 million, have a coupon rate of 4.00%, and mature on October 1, 2048. The bonds refunded the Citizens Westfield Water Series 2014A Revenue Bonds and the outstanding balance on Westfield Water’s line of credit in their entirety. Therefore the 2014A bonds are classified as long-term debt at December 31, 2018.

On February 13, 2019, Citizens Westfield Wastewater issued $22.7 million of Wastewater Utility Revenue Bonds, Series 2019A. The 2019A bonds were issued at a premium of $2.8 million, have a coupon rate of 5.00%, and mature on October 1, 2048. The bonds refunded the Citizens Westfield Wastewater Series 2014A Revenue Bonds and the outstanding balance on Westfield Wastewater’s line of credit in their entirety. Therefore the 2014A bonds are classified as long-term debt at December 31, 2018.

4. SHORT-TERM AND OTHER BORROWINGS

Gas

Gas had $50.0 million in commercial paper outstanding at December 31, 2018 and September 30, 2018. The commercial paper has a maximum maturity of 270 days. It last remarketed in December 2018 and will remarket again in April 2019. Commercial paper is backed by a two year letter of credit issued by J.P. Morgan Chase which matures on July 12, 2020. Gas has two three-year working capital lines of credit amounting to $50.0 million. The $25.0 million line of credit agreement with BMO Harris Bank NA has a maturity date of August 3, 2019 with an interest rate of LIBOR plus 1.25 percent. The $25.0 million line of credit with J.P. Morgan Chase has a maturity date of August 13, 2021 with an interest rate of LIBOR plus 1.25 percent. At December 31, 2018 and September 30, 2018, Gas had no amount outstanding under either line of credit.

Thermal

On June 21, 2017, the Thermal Energy System closed on the third supplemental credit agreement with JP Morgan Chase extending a $20.0 million line of credit to a June 21, 2019 maturity date. Proceeds can be used for both operating expenses and capital expenditures. The commitment fee on the line is 0.30 percent and the applicable interest rate is LIBOR plus 1.25 percent. At December 31, 2018 and September 30, 2018, no amounts were outstanding.

Water

On November 2, 2017 Water closed on a reduction of the capital expenditure line of credit from $100.0 million to $50.0 million and extended the maturity date from December 9, 2017 to November 2, 2020. The line of credit is provided by PNC. Interest rates are based on the Standard & Poor's and Fitch ratings of the 2014B Second Lien Water Utility Net Revenue Bonds; at the time of close, the line has an interest rate of 83 percent of LIBOR plus 0.70 percent with a commitment fee of 0.15 percent. At December 31, 2018 and September 30, 2018, no amounts were outstanding.

In April 2018, Citizens renewed the $30.0 million working capital line of credit with BMO Harris Bank NA to mature in April 2019; it has an interest rate of LIBOR plus 0.92 percent with a commitment fee of 0.10 percent. There were no draws on the facility during 2018 or 2017.

Wastewater

On September 28, 2017 CWA closed on a reduction of the capital expenditure line of credit from $145.0 million to $100.0 million and extended the maturity date from September 30, 2017 to September 30, 2020. The line of credit is with a syndicate of JP Morgan Chase and Wells Fargo, each with equal participation and with JP Morgan Chase acting as Administrative Agent, at an interest rate of 87.8 percent of LIBOR plus 0.84 percent and a commitment fee of 0.22 percent. At December 31, 2018 and September 30, 2018, $20.0 million was outstanding on the line of credit, classified as non-current liabilities in the Condensed Combined Statements of Financial Position in the line item labeled, "Other long-term liabilities".

Resources

Westfield Gas, Westfield Water, and Westfield Wastewater have established lines of credit with terms and conditions as outlined in the table below.

Entity	Credit Capacity	Maturity Date	Interest Rate	Commitment Fee	Amount Outstanding at (in millions) December 31, 2018	September 30, 2018
Westfield Gas	$4.0 million	March 30, 2021	LIBOR + 1.65%	0.150%	$ 1.7	$ 1.7
Westfield Water	$10.3 million	March 21, 2019	LIBOR + 2.40%	0.175%	3.5	3.5
Westfield Wastewater	$11.0 million	March 21, 2019	LIBOR + 2.40%	0.175%	3.0	3.0

Outstanding borrowings with maturities of twelve months or less from the balance sheet date are presented as current liabilities in the Condensed Combined Statements of Financial Position in the line item labeled, "Short-term borrowings". Outstanding borrowings with maturities greater than twelve months from the balance sheet date are classified as non-current liabilities in the Condensed Combined Statements of Financial Position in the line item labeled, "Other long-term liabilities". Outstanding balances for the Westfield Water and Westfield Wastewater lines of credit were repaid in February 2019 using proceeds from the Series 2019A Utility Revenue Bonds (see Note 3). Balances at December 31, 2018 were accordingly classified as "Other long-term liabilities".

5. REVENUE RECOGNITION

Citizens recognizes revenue consistent with amounts billed under tariff offerings or at contractually agreed upon rates based on actual delivery of utility service, including estimated volumes delivered when billings have not yet occurred. The majority of the Company's revenues have fixed pricing based on the contractual terms of the published tariffs, with variability in expected cash flows attributable to the customer's volumetric demand during the billing period. Utility receipts taxes are recognized on a gross basis as part of revenues.

Performance obligations are satisfied over time as utility services are delivered and consumed with billings generally occurring monthly and related payments due within 30 days. Using this output method for revenue recognition provides a faithful depiction of the transfer of utility services as customers obtain control of the service provided and simultaneously benefit from its use at delivery.

Substantially all of the Company's revenues result from tariff-based or fixed-price at-will contracts which either have an expected duration of one year or less, or, in the case of longer-term contracts, are based on a single performance obligation (the delivery of utility services) which will not have future performance obligations for disclosure.

Revenues from Contracts with Customers

Utility services for gas, steam, water, and wastewater are marketed throughout the Company's service territory using published tariff rates. The tariff rates are established by the Indiana Utility Regulatory Commission (IURC). Each tariff, which is assigned to customers based on customer class, has multiple components, such as a commodity charge, demand charge, facility or service charge and transportation costs. The Company considers each of these components to be aggregated into a single performance obligation for providing utility service which is satisfied over time and is provided and consumed over the billing period (generally one month). As such, revenue from contracts with customers for such contracts is equivalent to the service supplied and billed in that period, including unbilled estimates. Additionally, utility services are typically at-will and customers can cancel service at any time, without a substantive penalty. The Company maintains common utility credit risk mitigation practices, including requiring deposits and actively pursuing collection of past due amounts. Contracts with chilled water customers are based on a fixed capacity charge and a variable usage charge, resulting in performance obligations similar to that of the regulated utilities.

Monthly billing dates for utility services provided to customers are depicted in the table below.

Gas	Steam	Chilled Water	Water	Wastewater	Westfield Utilities
Cycle basis throughout month	Billed at end of month	Billed at end of month	Cycle basis throughout month	Cycle basis throughout month	Billed near end of month

Unbilled revenues, if applicable, are recognized by applying customer billing rates to the estimated volumes delivered but not yet billed. Unbilled revenues can vary significantly from period to period as a result of factors such as seasonality, weather, customer usage patterns, average price in effect per customer class, timing of rendering bills and meter reading schedules. The accrual for unbilled revenues is reversed in the subsequent accounting period when meters are actually read and customers are billed.

Revenues and, where applicable, costs are influenced by seasonal weather patterns, with peak sales for gas and steam occurring during the winter heating months, and during the summer months for chilled water and water. Revenues for wastewater are generally independent of seasonality. Residential and commercial customers are more impacted by weather than industrial customers. The Normal Temperature Adjustment (NTA) adjusts monthly billings to normalize Gas and Steam margin collected from certain customer classes during heating months.

Alternative Revenue Programs

Alternative Revenue Programs, such as the System Integrity Adjustment described in Note 9 – Wastewater, represent regulator-approved programs which allow for the adjustment of billings and revenue for certain broad, external factors such as normalization programs that adjust revenues for the effects of weather or programs designed to compensate for fluctuations in consumer demand. Such programs typically enable the Company to adjust rates in the future, usually as a surcharge applied to future billings, in response to past activities or completed events. Alternative Revenue Programs represent a contract between the utility and its regulators, not customers, and are therefore not within the scope of the accounting guidance for recognizing revenue from contracts with customers. When the criteria to recognize revenues from Alternative Revenue Programs have been met in accordance with ASC 980-605-25, a regulatory asset is established and the revenue is presented as a component of operating revenues. When amounts previously recognized under Alternative Revenue Programs accounting guidance are billed, the regulatory asset is reduced and a customer account receivable is recorded.

Disaggregated Revenues

Revenue by customer class is most meaningful to the Company as each respective customer class collectively represents unique customer expectations of service, generally has different energy and demand requirements, and operates under custom pricing structures approved by the IURC. Additionally, each customer class is impacted differently by weather and a variety of economic factors. Analyzing revenues disaggregated by customer class allows management to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Disaggregated revenues are presented as follows (in thousands):

Three Months Ended December 31, 2018

	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Intercompany Eliminations	Total
Residential	$ 56,305	$ -	$ -	$ 26,485	$ 33,157	$ 4,966	$ -	$ 120,913
Commercial	21,086	10,310	5,756	16,626	22,158	1,630	(2,229)	75,337
Industrial	2,779	6,877	81	2,395	10,288	26	(560)	21,886
Other	793	137	-	2,330	2,290	1,790	-	7,340
Revenues - Contracts w/Customers	80,963	17,324	5,837	47,836	67,893	8,412	(2,789)	225,476
Alternative Revenue Programs	-	-	-	-	(810)	(29)	-	(839)
Gross Operating Revenues	$ 80,963	$ 17,324	$ 5,837	$ 47,836	$ 67,083	$ 8,383	$ (2,789)	$ 224,637

Three Months Ended December 31, 2017

	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Intercompany Eliminations	Total
Residential	$ 56,670	$ -	$ -	$ 26,723	$ 32,910	$ 4,841	$ -	$ 121,144
Commercial	21,187	11,131	6,124	16,788	21,752	1,807	(2,382)	76,407
Industrial	2,975	8,031	128	2,398	8,265	26	(370)	21,453
Other	863	9	-	2,553	1,801	2,697		7,923
Revenues - Contracts w/Customers	81,695	19,171	6,252	48,462	64,728	9,371	(2,752)	226,927
Alternative Revenue Programs	-	-	-	-	5,724	(29)		5,695
Gross Operating Revenues	$ 81,695	$ 19,171	$ 6,252	$ 48,462	$ 70,452	$ 9,342	$ (2,752)	$ 232,622

Accounts Receivable and Unbilled Revenue

Amounts due from customers are reflected on the Condensed Combined Statements of Financial Position in the line items labeled “Accounts receivable” for revenue billed to customers and “Accrued utility revenue” which represent unbilled customer revenues. Unbilled revenues relate to a portion of a customer’s consumption of utility services from the date of the last cycle billing date through the last day of the month (balance sheet date). Factors taken into consideration when estimating unbilled revenue include historical usage and customer rates. The Company had no contract assets or liabilities during the periods presented. Additionally, the Company has not incurred any significant costs to obtain or fulfill contracts. The opening and closing balances for customer accounts receivable and accrued utility revenue for the three months ended December 31, 2018 and 2017 are presented in the table below.

Accounts Receivable, net

$ Thousands	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Total
Balance at December 31, 2018	$ 30,469	$ 7,102	$ 1,419	$ 20,497	$ 27,056	$ 3,299	$ 89,842
Balance at September 30, 2018	11,621	4,784	4,584	23,451	25,696	4,028	74,164
Increase (Decrease)	$ 18,848	$ 2,318	$ (3,165)	$ (2,954)	$ 1,360	$ (729)	$ 15,678
Balance at December 31, 2017	$ 30,097	$ 9,835	$ 1,997	$ 19,349	$ 25,926	$ 4,704	$ 91,908
Balance at September 30, 2017	10,132	5,220	4,404	21,076	25,552	4,116	70,500
Increase (Decrease)	$ 19,965	$ 4,615	$ (2,407)	$ (1,727)	$ 374	$ 588	$ 21,408

Accrued Utility Revenue

$ Thousands	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Total
Balance at December 31, 2018	$ 14,578	$ -	$ -	$ 7,094	$ 11,521	$ 475	$ 33,668
Balance at September 30, 2018	4,068	-	-	8,403	11,381	472	24,324
Increase (Decrease)	$ 10,510	$ -	$ -	$ (1,309)	$ 140	$ 3	$ 9,344
Balance at December 31, 2017	$ 19,473	$ -	$ -	$ 6,828	$ 10,355	$ 613	$ 37,269
Balance at September 30, 2017	3,763	-	-	8,218	11,004	416	23,401
Increase (Decrease)	$ 15,710	$ -	$ -	$ (1,390)	$ (649)	$ 197	$ 13,868

Accounts receivable and accrued utility revenue increased over the period due to expected seasonal increase in customer usage in December when compared with September.

6. FINANCIAL SEGMENT INFORMATION

Operations of Citizens include activities in five reportable segments: Gas, Steam, Chilled Water, Water, and Resources. In addition to these business segments, Other is utilized to capture non-revenue generating segment costs (see discussion below). Operations of CWA include activities for the Wastewater business segment. The Chief Executive Officer is the chief operating decision maker for Citizens and CWA.

Gas activities include purchasing natural gas, operating underground natural gas storage facilities in Indiana, and distributing natural gas to residential, commercial, and industrial customers located in Marion County, Indiana.

Steam activities include the production, purchase, and distribution of steam for use in industrial processes and heating buildings in the downtown Indianapolis area.

Chilled Water activities include the production and distribution of chilled water for use in cooling buildings in the central downtown Indianapolis area.

Water activities include the treatment and distribution of drinking water to residential, commercial, and industrial customers located in and around Marion County, Indiana.

Wastewater activities include wastewater collection and treatment services for residential, commercial, and industrial customers located in and around Marion County, Indiana.

Resources conducts for-profit business activities in order to ultimately provide enhanced benefits to Citizens' beneficiaries. Resources includes affiliate joint venture investments of $0.4 million at December 31, 2018 and September 30, 2018. Resources also includes several wholly-owned subsidiaries under CESCO, which serves as a holding company for several LLC subsidiaries. CESCO subsidiaries include: Citizens Westfield Utilities, which is the holding company for the three utilities serving Westfield (Westfield Gas, Westfield Water, and Westfield Wastewater); CESCO Diversified Business Enterprises, which is the holding company for Citizens Resources Production LLC, an oil producer; and Citizens South Madison (CSM), a small unregulated water utility. In addition, Resources provides stormwater management services to the City of Indianapolis through Citizens Energy Management Company, LLC. As of December 2017, Resources also owned Heartland Gas Pipeline, LLC, which provided gas transportation and storage services to Gas.

Other includes certain non-profit instrumentalities, as well as advertising and philanthropic costs that are not recoverable through rates and are funded by contributions from non-regulated segments. Other also includes shared services comprised of various administrative and operational departments that provide support services to each of Citizens and CWA business segments, certain affiliates and the combined enterprise as a whole, and allocates the associated cost of the services to the appropriate segment. Management reviews the allocation methodology for shared services on a regular basis and refines the methodology as necessary. The former Manufacturing business segment has been reported as Discontinued Operations and is also included in Other. To the extent certain business segments purchase services from one another, these amounts have been eliminated on the face of the condensed combined financial statements. Such transactions are reported gross for segment presentation, with eliminating entries reported as Eliminations.

Segment Footnote - Condensed Combined Statement of Financial Position

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
At December 31, 2018

	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Other	Elimin-ations	Total
Assets									
Property, plant, and equipment	$306,629	$ 74,325	$ 63,562	$1,110,551	$1,888,373	$181,463	$ 23,419	$ -	**$3,648,322**
Intangibles	-	15,924	44,748	-	-	-	-	-	**60,672**
Investments	12,280	6,263	1,749	68,525	187,668	4,421	530	-	**281,436**
Cash and cash equivalents	66,861	9,366	26,985	50,891	22,621	14,585	20,717	-	**212,026**
Other current assets	82,576	11,684	2,870	34,658	46,897	4,784	(5,607)	(8,616)	**169,246**
Deferred charges and other non-current assets	7,281	2,380	12	19,793	14,432	1,436	1,412	-	**46,746**
Total assets	$475,627	$119,942	$139,926	$1,284,418	$2,159,991	$206,689	$ 40,471	$ (8,616)	**$4,418,448**
Capitalization and Liabilities									
Equity	$119,096	$ 22,692	$ 92,405	$ 91,945	$ 46,612	$102,946	$ (34,949)	$ -	**$ 440,747**
Long-term debt	201,605	74,598	37,536	959,140	1,875,725	32,503	-	-	**3,181,107**
Retirement benefit and Other long-term liabilities	33,010	6,397	1,520	162,401	104,167	65,618	64,516	-	**437,629**
Current mat. of long-term debt	15,430	5,792	4,748	23,435	38,881	-	-	-	**88,286**
Short-term borrowings	50,000	-	-	-	-		-	-	**50,000**
Current liabilities	56,486	10,463	3,717	47,497	94,606	5,622	10,904	(8,616)	**220,679**
Total capitalization and liabilities	$475,627	$119,942	$139,926	$1,284,418	$2,159,991	$206,689	$ 40,471	$ (8,616)	**$4,418,448**

Segment Footnote - Condensed Combined Statement of Financial Position

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
At September 30, 2018

	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Other	Elimin-ations	Total
Assets									
Property, plant, and equipment	$305,862	$ 74,801	$ 63,660	$1,105,821	$1,861,272	$178,788	$ 23,958	$ -	**$3,614,162**
Intangibles	-	16,169	45,429	-	-	-	-	-	**61,598**
Investments	6,961	11,341	5,640	84,351	258,372	4,568	530	-	**371,763**
Cash and cash equivalents	75,531	11,139	25,562	44,034	32,503	35,953	25,201	-	**249,923**
Other current assets	66,559	10,033	6,322	40,299	43,345	5,676	(1,870)	(16,753)	**153,611**
Deferred charges and other non-current assets	8,033	2,633	49	17,248	16,973	1,500	2,414	-	**48,850**
Total assets	$462,946	$126,116	$146,662	$1,291,753	$2,212,465	$226,485	$ 50,233	$(16,753)	**$4,499,907**
Capitalization and Liabilities									
Equity	$103,664	$ 20,876	$ 92,216	$ 86,384	$ 41,446	$102,975	$ (36,380)	$ -	**$ 411,181**
Long-term debt	202,020	80,671	42,511	968,088	1,912,417	8,815	-	-	**3,214,522**
Retirement benefit and Other long-term liabilities	34,023	6,742	1,537	160,205	101,236	58,110	66,575	-	**428,428**
Current mat. of long-term debt	15,430	5,526	4,499	18,550	37,386	43,089	-	-	**124,480**
Short-term borrowings	50,000	-	-	-	-	6,500	-	-	**56,500**
Current liabilities	57,809	12,301	5,899	58,526	119,980	6,996	20,038	(16,753)	**264,796**
Total capitalization and liabilities	$462,946	$126,116	$146,662	$1,291,753	$2,212,465	$226,485	$ 50,233	$(16,753)	**$4,499,907**

Segment Footnote - Condensed Combined Statement of Operations

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
For the Three Months Ended December 31, 2018

	Gas	Steam	Chilled Water	Water	Waste-water	Resources	Other	Elimin-ations	Total
Operating revenues									
Customer revenues	$ 80,252	$ 16,033	$ 5,837	$ 47,546	$ 66,760	$ 8,209	$ -	$ -	**$ 224,637**
Intercompany revenues	711	1,291	-	290	323	174	-	(2,789)	**-**
Gross operating revenues	80,963	17,324	5,837	47,836	67,083	8,383	-	(2,789)	**224,637**
Operating expenses:									
Cost of goods sold	38,764	7,976	1,824	-	-	614	-	(2,215)	**46,963**
Operations and maintenance	15,983	5,134	1,890	18,196	18,787	3,581	-	(556)	**63,015**
Depreciation and amortization	6,055	1,338	1,313	10,780	20,267	1,300	-	-	**41,053**
Taxes	2,432	371	445	3,636	6,455	559	-	-	**13,898**
Total operating expenses	63,234	14,819	5,472	32,612	45,509	6,054	-	(2,771)	**164,929**
Operating income (loss)	17,729	2,505	365	15,224	21,574	2,329	-	(18)	**59,708**
Other income (expense), net:									
Interest income	140	34	65	345	894	42	6	(6)	**1,520**
Non-operating post-employment benefits, net	(73)	(19)	2	16	32	5			**(37)**
Other	63	-	-	158	87	(42)	(440)	-	**(174)**
Total other income (expense), net	130	15	67	519	1,013	5	(434)	(6)	**1,309**
Income (loss) before equity in losses of affiliates and interest charges	17,859	2,520	432	15,743	22,587	2,334	(434)	(24)	**61,017**
Equity in losses of affiliates	-	-	-	-	-	(40)	-	-	**(40)**
Interest charges:									
Interest on long-term debt	2,558	927	478	10,900	21,559	305	6	(6)	**36,727**
Other interest, including net discount (premium) amortization	196	(168)	(228)	(1,391)	(4,123)	317	6	-	**(5,391)**
Total interest charges	2,754	759	250	9,509	17,436	622	12	(6)	**31,336**
Income (loss) from continuing operations	15,105	1,761	182	6,234	5,151	1,672	(446)	(18)	**29,641**
Loss from discontinued operations	-	-	-	-	-	-	(113)	18	**(95)**
Net income (loss)	$ 15,105	$ 1,761	$ 182	$ 6,234	$ 5,151	$ 1,672	$ (559)	$ -	**$ 29,546**

Segment Footnote - Condensed Combined Statement of Operations

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
For the Three Months Ended December 31, 2017

	Gas	Steam	Chilled Water	Water	Waste-water	Resources	Other	Elimin-ations	Total
Operating revenues									
Customer revenues	$ 81,154	$ 17,887	$ 6,252	$ 48,245	$ 70,207	$ 8,877	$ -	$ -	**$ 232,622**
Intercompany revenues	541	1,284	-	217	245	465	-	(2,752)	**-**
Gross operating revenues	81,695	19,171	6,252	48,462	70,452	9,342	-	(2,752)	**232,622**
Operating expenses:									
Cost of goods sold	38,075	10,040	2,192	-	-	576	-	(2,278)	**48,605**
Operations and maintenance	15,532	4,536	2,048	17,861	18,787	3,957	(268)	(453)	**62,000**
Depreciation and amortization	5,955	1,292	1,550	10,543	18,473	1,361	-	-	**39,174**
Taxes	2,383	378	454	3,493	5,700	484	94	-	**12,986**
Total operating expenses	61,945	16,246	6,244	31,897	42,960	6,378	(174)	(2,731)	**162,765**
Operating income (loss)	19,750	2,925	8	16,565	27,492	2,964	174	(21)	**69,857**
Other income (expense), net:									
Interest income	43	16	19	485	541	67	27	(20)	**1,178**
Non-operating post-employment benefits, net	(306)	(74)	(15)	(105)	(10)	-	(192)	-	**(702)**
Other	-	-	-	508	2	40	(98)	-	**452**
Total other income (expense), net	(263)	(58)	4	888	533	107	(263)	(20)	**928**
Income (loss) before equity in earnings of affiliates and interest charges	19,487	2,867	12	17,453	28,025	3,071	(89)	(41)	**70,785**
Equity in losses of affiliates	-	-	-	-	-	(1,946)	-	-	**(1,946)**
Interest charges:									
Interest on long-term debt	2,896	971	535	12,257	22,165	583	20	(20)	**39,407**
Other interest, including net (premium) discount amortization	225	(170)	(245)	(456)	(5,433)	164	6	-	**(5,909)**
Total interest charges	3,121	801	290	11,801	16,732	747	26	(20)	**33,498**
Income (loss) from continuing operations	16,366	2,066	(278)	5,652	11,293	378	(115)	(21)	**35,341**
Loss from discontinued operations	-	-	-	-	-	-	(820)	21	**(799)**
Net income (loss)	$ 16,366	$ 2,066	$ (278)	$ 5,652	$ 11,293	$ 378	$ (935)	$ -	**$ 34,542**

Segment Footnote - Condensed Combined Statement of Cash Flows

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
For the Three Months Ended December 31, 2018

	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Other	Total
Net cash provided by (used in) operating activities	$ 3,401	$ (259)	$ 3,113	$ 11,661	$ (2,862)	$ 2,555	$ (3,901)	**$ 13,708**
Investing Activities:								
Construction expenditures	(6,649)	(1,066)	(1,082)	(14,167)	(44,842)	(3,041)	(2,283)	**(73,130)**
Purchase of investment securities	(6,514)	(2,389)	(1,677)	(18,473)	(31,951)	-	-	**(61,004)**
Sale and maturity of investment securities	1,103	7,467	5,568	34,155	102,659	-	-	**150,952**
Other investing activities	92	-	-	(323)	(4)	(1,701)	1,700	**(236)**
Net cash provided by (used in) investing activities	(11,968)	4,012	2,809	1,192	25,862	(4,742)	(583)	**16,582**
Financing Activities:								
Principal payments of long-term debt and bond refunding	-	(5,526)	(4,499)	(418,250)	(33,590)	(19,454)	-	**(481,319)**
Proceeds from bond refunding	-	-	-	413,987	-	-	-	**413,987**
Bond issuance costs	-	-	-	(1,909)	-	(115)	-	**(2,024)**
Contributions in aid of construction	-	-	-	176	708	388	-	**1,272**
Other financing activities	(103)	-	-	-	-	-	-	**(103)**
Net cash provided by (used in) financing activities	(103)	(5,526)	(4,499)	(5,996)	(32,882)	(19,181)	-	**(68,187)**
Net change in cash and cash equivalents	(8,670)	(1,773)	1,423	6,857	(9,882)	(21,368)	(4,484)	**(37,897)**
Cash and cash equivalents at beginning of period	75,531	11,139	25,562	44,034	32,503	35,953	25,201	**249,923**
Cash and cash equivalents at end of period	$ 66,861	$ 9,366	$ 26,985	$ 50,891	$ 22,621	$ 14,585	$ 20,717	**$ 212,026**

Segment Footnote - Condensed Combined Statement of Cash Flows

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
For the Three Months Ended December 31, 2017

	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Other	Total
Net cash provided by (used in) operating activities	$ (4,688)	$ (192)	$ 1,469	$ 16,603	$ (2,685)	$ 2,998	$ (4,386)	**$ 9,119**
Investing Activities:								
Construction expenditures	(8,174)	(2,220)	(231)	(15,342)	(81,999)	(1,684)	(2,517)	**(112,167)**
Purchase of investment securities	(6,588)	(2,369)	(1,664)	(18,774)	(32,162)	-	-	**(61,557)**
Sale and maturity of investment securities	1,672	7,363	5,486	9,955	106,940	-	-	**131,416**
Divestiture proceeds, net of expenses	-	-	-	-	-	(3,364)	-	**(3,364)**
Other investing activities	(15,419)	-	(20,757)	(561)	-	36,529	2,824	**2,616**
Net cash provided by (used in) investing activities	(28,509)	2,774	(17,166)	(24,722)	(7,221)	31,481	307	**(43,056)**
Financing Activities:								
Proceeds from bank line of credit	-	-	-	-	20,000	-	-	**20,000**
Principal payments of long-term debt and bond refunding	-	(5,301)	(4,309)	(1,580)	(39,563)	(742)	-	**(51,495)**
Bond issuance costs	-	-	-	-	(32)	-	-	**(32)**
Contributions in aid of construction	-	-	-	737	1,700	-	-	**2,437**
Other financing activities	(140)	-	-	-	-	-	-	**(140)**
Net cash provided by (used in) financing activities	(140)	(5,301)	(4,309)	(843)	(17,895)	(742)	-	**(29,230)**
Net change in cash and cash equivalents	(33,337)	(2,719)	(20,006)	(8,962)	(27,801)	33,737	(4,079)	**(63,167)**
Cash and cash equivalents at beginning of period	96,379	11,450	40,448	53,196	54,263	27,595	16,301	**299,632**
Cash and cash equivalents at end of period	$ 63,042	$ 8,731	$ 20,442	$ 44,234	$ 26,462	$ 61,332	$ 12,222	**$ 236,465**

During the three months ended December 31, 2017, an $18 million contribution was made by Chilled Water to Resources for the purposes of contributing to CWU.

7. ADDITIONAL FINANCIAL INFORMATION – CITIZENS WESTFIELD UTILITIES

Operations of CWU include the activities of Westfield Gas, Westfield Water, and Westfield Wastewater. CWU (Parent) is the holding company for the three utilities serving residential, commercial and industrial customers in Westfield, Indiana:

- Westfield Gas activities include purchasing and distributing natural gas.
- Westfield Water activities include treatment and distribution of drinking water.
- Westfield Wastewater activities include wastewater collection and treatment services.

Condensed Consolidating Statement of Financial Position
Citizens Westfield Utilities, LLC
(In Thousands)
At December 31, 2018

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Assets						
Property, plant, and equipment	$ -	$ 10,323	$ 70,616	$ 92,940	$ -	**$ 173,879**
Investments	93,701	-	-	-	(93,701)	**-**
Cash and cash equivalents	143	1,264	1,471	4,887	-	**7,765**
Other current assets	-	1,243	1,157	1,596	-	**3,996**
Other non-current assets	84	1,126	16	123	-	**1,349**
Total assets	$ 93,928	$ 13,956	$ 73,260	$ 99,546	$ (93,701)	**$ 186,989**
Capitalization and Liabilities						
Member's equity	$ 84,708	$ 11,532	$ 30,172	$ 51,997	$ (93,701)	**$ 84,708**
Long-term debt	8,893	-	8,356	15,254	-	**32,503**
Other long-term borrowings	-	1,700	3,500	3,000	-	**8,200**
Other long-term liabilities	-	4	28,970	27,546	-	**56,520**
Current maturities of long-term debt	-	-	-	-	-	**-**
Short-term borrowings	-	-	-	-	-	**-**
Current liabilities	327	720	2,262	1,749	-	**5,058**
Total capitalization and liabilities	$ 93,928	$ 13,956	$ 73,260	$ 99,546	$ (93,701)	**$ 186,989**

Condensed Consolidating Statement of Financial Position
Citizens Westfield Utilities, LLC
(In Thousands)
At September 30, 2018

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Assets						
Property, plant, and equipment	$ -	$ 10,077	$ 68,657	$ 92,584	$ -	**$ 171,318**
Investments	91,985	-	-	-	(91,985)	**-**
Cash and cash equivalents	407	1,562	2,208	4,213	-	**8,390**
Other current assets	1	778	1,300	1,443	-	**3,522**
Other non-current assets	59	1,287	15	139	-	**1,500**
Total assets	$ 92,452	$ 13,704	$ 72,180	$ 98,379	$ (91,985)	**$ 184,730**
Capitalization and Liabilities						
Member's equity	$ 63,914	$ 11,191	$ 29,773	$ 51,021	$ (91,985)	**$ 63,914**
Long-term debt	8,862	-	8,348	15,240	-	**32,450**
Other long-term borrowings	-	1,700	3,500	3,000	-	**8,200**
Other long-term liabilities	-	4	28,539	26,962	-	**55,505**
Current maturities of long-term debt	19,454	-	-	-	-	**19,454**
Short-term borrowings	-	-	-	-	-	**-**
Current liabilities	222	809	2,020	2,156	-	**5,207**
Total capitalization and liabilities	$ 92,452	$ 13,704	$ 72,180	$ 98,379	$ (91,985)	**$ 184,730**

Condensed Consolidating Statement of Operations
Citizens Westfield Utilities, LLC
For the Year Ended December 31, 2018
(In Thousands)

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	$ -	$ 1,451	$ 2,039	$ 3,032	$ -	$ 6,522
Operating expenses						
Cost of goods sold	-	614	-	-	-	614
Other operating expenses	151	274	964	1,037	-	2,426
Depreciation and amortization	-	155	317	608	-	1,080
Taxes	-	52	273	213	-	538
Total operating expenses	151	1,095	1,554	1,858	-	4,658
Total operating (loss) income	(151)	356	485	1,174	-	1,864
Other income	-	2	51	3	-	56
Equity in earnings of subsidiaries	1,716	-	-	-	(1,716)	-
Interest charges						
Interest on long-term debt	66	-	86	157	-	309
Other interest	205	17	51	44	-	317
Total interest charges	271	17	137	201	-	626
Net income	$ 1,294	$ 341	$ 399	$ 976	$ (1,716)	$ 1,294

Condensed Consolidating Statement of Operations
Citizens Westfield Utilities, LLC
For the Year Ended December 31, 2017
(In Thousands)

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	$ -	$ 1,357	$ 2,080	$ 2,918	$ -	$ 6,355
Operating expenses						
Cost of goods sold	-	576	-	-	-	576
Other operating expenses	176	309	835	916	-	2,236
Depreciation and amortization	-	136	284	576	-	996
Taxes	-	49	213	172	-	434
Total operating expenses	176	1,070	1,332	1,664	-	4,242
Total operating income (loss)	(176)	287	748	1,254	-	2,113
Other income	-	-	50	3	-	53
Equity in earnings of subsidiaries	2,119	-	-	-	(2,119)	-
Interest charges						
Interest on long-term debt	456	-	46	85	-	587
Other interest	73	11	41	40	-	165
Total interest charges	529	11	87	125	-	752
Net income	$ 1,414	$ 276	$ 711	$ 1,132	$ (2,119)	$ 1,414

Condensed Consolidating Statement of Cash Flows
Citizens Westfield Utilities, LLC
(In Thousands)
For the Three Months Ended December 31, 2018

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Total
Net cash provided by (used in) operating activities	$ (199)	$ 80	$ 597	$ 1,445	**$ 1,923**
Investing Activities:					
Construction expenditures	-	(377)	(1,282)	(1,207)	**(2,866)**
Net cash provided by (used in) investing activities	-	(377)	(1,282)	(1,207)	**(2,866)**
Financing Activities:					
Principal payments of long-term debt	(19,454)	-	-		**(19,454)**
Bond issuance costs	(112)	-	(2)	(2)	**(116)**
Additional paid-in capital and dividends	19,500	-	-	-	**19,500**
Contributions in aid of construction	-	-	(50)	438	**388**
Net cash provided by (used in) financing activities	(66)	-	(52)	436	**318**
Net change in cash and cash equivalents	(265)	(297)	(737)	674	**(625)**
Cash and cash equivalents at beginning of period	408	1,561	2,208	4,213	**8,390**
Cash and cash equivalents at end of period	$ 143	$ 1,264	$ 1,471	$ 4,887	**$ 7,765**

Condensed Consolidating Statement of Cash Flows
Citizens Westfield Utilities, LLC
(In Thousands)
For the Three Months Ended December 31, 2017

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Total
Net cash provided by (used in) operating activities	$ (729)	$ (16)	$ 1,020	$ 1,148	**$ 1,423**
Investing Activities:					
Construction expenditures	-	(139)	(447)	(820)	**(1,406)**
Net cash provided by (used in) investing activities	-	(139)	(447)	(820)	**(1,406)**
Financing Activities:					
Principal payments of long-term debt	(576)	-	-	-	**(576)**
Additional paid-in capital and dividends	35,600	-	(550)	(550)	**34,500**
Net cash provided by (used in) financing activities	35,024	-	(550)	(550)	**33,924**
Net change in cash and cash equivalents	34,295	(155)	23	(222)	**33,941**
Cash and cash equivalents at beginning of period	486	699	2,465	2,199	**5,849**
Cash and cash equivalents at end of period	$ 34,781	$ 544	$ 2,488	$ 1,977	**$ 39,790**

8. DISCONTINUED OPERATIONS AND RELATED ASSET RETIREMENT OBLIGATIONS

The Manufacturing segment, d/b/a Indianapolis Coke, ceased operations on July 13, 2007. Prior to the cessation of operations, Manufacturing (reported as Discontinued Operations) produced manufactured gas, coke, and various chemical by-products for industrial use. Indianapolis Coke had been in operation since 1909 and once produced all of the gas used for heating and other purposes in Marion County. With the introduction of natural gas transported to Indianapolis via interstate pipelines in the 1950's, the percentage of manufactured gas in the gas distribution system gradually declined and reached zero when the Manufacturing segment ceased operation in 2007.

Estimated costs relating to the closure, including liquidation of inventories, plant demolition, and environmental remediation are reflected in the accompanying condensed combined financial statements in accordance with FASB guidance related to asset retirement obligations (ASC 410-20) and exit or disposal cost obligations (ASC 420). Citizens enrolled this facility in the Indiana Department of Environmental Management Voluntary Remediation Program to address historical environmental impacts associated with these operations. Demolition costs concluded in 2017, and costs of remediation will continue for several years. As the full nature and extent of the environmental impacts can be difficult to determine with certainty, Citizens, in conjunction with internal and external environmental consultants, has estimated and accrued costs associated with environmental remediation of this site based on currently available information. Estimates of these costs are included in the condensed combined financial statements as part of the asset retirement obligation. Citizens reviews the asset retirement obligation annually, evaluating newly assumed costs or substantive changes in previously assumed costs to determine if cost estimate impacts are sufficiently material to warrant application of the updated estimates to the asset retirement obligation. Changes resulting from revisions to the timing or amount of the original estimate of cash flows are recognized as an increase or a decrease in the asset retirement cost to the extent applicable.

Activity for the three months ended December 31, 2018 for the asset retirement obligation liability is as follows (in thousands):

Asset retirement obligation at September 30, 2018	$	16,734
Accretion expense		196
Remediation liabilities settled		(394)
Asset retirement obligation at December 31, 2018	$	16,536

In June 2018, Citizens sold certain land parcels associated with Discontinued Operations to the City of Indianapolis (the City) for $2.1 million. Remaining land parcels of Discontinued Operations, which are subject to the remediation plan discussed above, were leased to the City with ownership to be conveyed to the City upon successful completion of environmental remediation. The City's development plans for the site resulted in changes to the overall site remediation plan and timeline. A remediation work plan was prepared by Citizens and approved by the Indiana Department of Environmental Management in 2018. Effective September 30, 2018, Citizens revised its estimate of the costs and related amount of cash flows for the asset retirement obligation which resulted in a $43.0 million reduction in the asset retirement obligation liability, primarily relating to decreased estimates for future environmental remediation as required per the revised remediation work plan.

The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) at December 31, 2018 and September 30, 2018, are as follows (in thousands):

		December 31, 2018		September 30, 2018
Current assets	**$**	**645**	$	1,761
Deferred charges and other non-current assets		**3**		-
Total assets	**$**	**648**	$	1,761
Equity (deficiency)	**$**	**(22,141)**	$	(22,090)
Retirement benefit and other long-term liabilities		**22,379**		22,790
Current liabilities		**410**		1,061
Total capitalization and liabilities	**$**	**648**	$	1,761

For the three months ended December 31, 2018 and 2017 Discontinued Operations operating expenses were $0.1 million and $0.8 million, respectively. Approximately $24.7 million of cash was provided by Gas to Discontinued Operations during fiscal year 2018 to settle a portion of the liabilities. Additional cash funding from Gas to settle liabilities may be provided to Discontinued Operations in future years.

9. RATE AND REGULATORY MATTERS

Gas

The gas utility's most recent general rate case order was issued by the IURC in September 2011.

On April 18, 2018, Citizens Gas filed a petition and supporting testimony requesting approval of an agreement entered into under Rate 30 of its IURC approved tariff. Pursuant to the agreement, Citizens Gas would provide gas transportation service to an electric generation facility owned by Indianapolis Power & Light Company at a negotiated rate Based on discussions with the OUCC, Citizens Gas currently plans to amend its petition and seek approval of the contract as a general special contract that is not subject to the requirements of Rate 30.

On April 25, 2018, Citizens Gas and Heartland Gas Pipeline, LLC (Heartland), filed a joint petition requesting certain approvals in connection with Heartland's proposed transfer of substantially all its assets to Citizens Gas Pipeline Assets, LLC (Citizens Gas Pipeline) to be held for the exclusive use and benefit of Citizens Gas. The proposed transaction will result in annual savings of $1.59 million for Citizens Gas's customers by eliminating transportation and storage charges Citizens Gas currently pays Heartland and recovers from customers through the Gas Cost Adjustment (GCA) mechanism. On July 10, 2018, the OUCC filed testimony recommending approval of the proposed transfer. On September 12, 2018, the IURC issued an order approving, without modification, the proposed asset purchase agreement pursuant to which Heartland would sell its assets to Citizens Gas Pipeline Assets, LLC, which will own the assets for the exclusive use and benefit of Citizens Gas. The transaction closed and the transfer was effected on September 28, 2018.

Citizens Thermal Steam

The steam utility's most recent general rate case order was issued by the IURC in November 2016.

The Citizens Thermal steam utility has entered into an agreement with the Citizens gas utility pursuant to which the steam utility would receive gas transportation service at a negotiated rate under a special contract, subject to the approval of the IURC. On March 9, 2018, the gas utility filed a petition with the IURC requesting approval of the agreement. On May 3, 2018, the Office of Utility Consumer Counselor (OUCC) filed testimony stating the agreement is in the public interest and recommending its approval by the IURC. On June 20, 2018, the IURC issued an order approving the agreement. The steam utility anticipates gas transportation cost savings exceeding $1 million annually. Gas transportation costs are recovered through the steam utility's fuel cost adjustment charge, which is adjusted quarterly, so the reduced gas transportation costs will not affect the steam utility's base rates and charges.

Water

The water utility's most recent general rate case order was issued by the IURC in April 2016.

Wastewater

The wastewater utility's most recent general rate case order was issued by the IURC in July 2016.

On September 28, 2017, CWA filed a petition with the IURC requesting approval to implement an initial "System Integrity Adjustment" ("SIA 1"), which is authorized under a law enacted in 2016 by the Indiana General Assembly (the "SIA statute"). The purpose of the SIA statute is to facilitate an eligible utility's recovery of revenues sufficient to plan for and invest in necessary infrastructure based on the revenue requirement authorized in the utility's most recent rate case. CWA proposed adjustments to its non-industrial rates designed to recover an initial SIA 1 of $6.1 million, based on a comparison of authorized revenues from CWA's most recent rate case and actual revenues for the 12 months ending July 31, 2017. On December 28, 2017, the IURC issued an order finding that CWA's proposed SIA 1 was properly calculated and approving it for implementation. The new rates implementing the initial SIA 1 became effective January 1, 2018.

Pursuant to the SIA statute, on September 17, 2018, CWA filed a petition requesting approval to change its adjustment amount and beginning January 1, 2019, recover an SIA 2 of approximately $9.95 million. An SIA 2 of approximately $9.86 million was approved by the IURC and became effective January 1, 2019.

On October 12, 2018, CWA filed a petition with the IURC requesting, among other things, a three-step increase in base rate revenues. The step one increase, which CWA anticipates would take effect in August 2019, would increase base rate revenues by $39.5 million. The step two increase, which CWA anticipates would take effect in August 2020, would increase base rate revenues by another $14.7 million. The step three increase, which CWA anticipates would take effect in August 2021, would increase base rate revenues by another $11.3 million. On January 25, 2019, the OUCC and intervening parties filed testimony addressing CWA's proposed rate increase. The OUCC's testimony would result in a smaller three-step increase in base rate revenues as follows: step 1, $20.9 million; step 2, $14.7 million; and step 3, $9.6 million. A group of large customers intervening as the CWA Authority Industrial Group filed testimony that would result in a smaller three-step increase in base rate revenues as follows: step 1, $25.5 million; step 2, $14.7 million and step 3, $11.3 million. No other intervenor filed testimony opposing CWA's requested increase. CWA will file rebuttal testimony on or before February 21, 2019. A hearing is scheduled to begin March 18, 2019.

Resources - Westfield Gas

Westfield Gas's most recent general rate case order was issued by the IURC in April 2017.

Resources - Westfield Water

Westfield Water's rates were approved by the IURC in November 2013.

Resources – Westfield Wastewater

Westfield Wastewater's most recent general rate case order was issued by the IURC in May 2017.

Joint Depreciation Case

On January 12, 2018, Citizens filed a depreciation case requesting approval to implement a decrease in depreciation accrual rates when compared to current depreciation rates for Gas, Citizens Thermal Steam, Water, Wastewater, and the Westfield utilities owned by Resources. On September 10, 2018, Citizens and the OUCC submitted a settlement agreement and supporting testimony. Under the settlement agreement, neither Westfield Gas, Citizens Water of Westfield or Citizens Wastewater of Westfield will implement the change in depreciation accrual rates applicable to it approved by the Commission in this proceeding prior to the approval of new basic rates and charges in each utility's next base rate case. A hearing before the IURC was held October 24, 2018. On December 27, 2018, the IURC issued an order approving the settlement agreement without modification.

10. COMMITMENTS AND CONTINGENCIES

A. Environmental Commitments and Contingencies

Citizens and CWA are subject to various environmental laws and regulations and believe they are in compliance with existing federal, state and local statutes, ordinances, rules and regulations governing environmental matters. Citizens and CWA have no way of estimating the enactment or promulgation of future environmental laws and regulations. See Note 8 for additional information regarding demolition and environmental remediation of the former Indianapolis Coke Manufacturing facility. For operating facilities, accruals for environmental commitments and contingencies are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on current law and existing technologies. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

Langsdale Environmental Remediation

Citizens operated a gas manufacturing plant (the Langsdale Facility) at Citizens' Langsdale property from 1931 until 1952. Available records indicate the plant was out of service from 1931 until 1943, at which time the U.S. Department of Defense ordered that the plant be recommissioned to support domestic production associated with World War II. Over the course of its operation, the Langsdale Facility produced manufactured gas, which was distributed to gas customers through the gas utility distribution system. The Langsdale Facility also produced metallurgical coke and other by-products. Citizens enrolled this facility in the Indiana Department of Environmental Management (IDEM) Voluntary Remediation Program (VRP) in 2005 to address historical environmental impacts associated with these operations.

Upon completion of a remediation work plan (RWP) in the fourth quarter of fiscal 2016, Citizens recorded a $9.4 million liability for estimated remediation and restoration costs at the Langsdale Facility. These costs are expected to be incurred over a ten year period. Citizens filed the RWP with IDEM in November 2016. The obligation is included in "Other current liabilities" and "Other long-term liabilities" in the Condensed Combined Statements of Financial Position and represents management's best estimate of the costs for remediation and restoration of the site. The accrued liability related to Langsdale environmental remediation was $7.7 million and $7.8 million at December 31, 2018 and September 30, 2018, respectively. Due to a number of uncertainties, including uncertainty of timing, the scope of remediation, future technology, regulatory changes, and other factors, the ultimate remediation costs may exceed the amounts estimated.

Potential National Priorities List Site, Indianapolis

In April 2016, the United States Environmental Protection Agency (EPA) proposed that an area near downtown Indianapolis be added to the National Priorities List (NPL) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), commonly known as "Superfund," due to the presence of certain chlorinated solvents in groundwater. The area is expected to include two well fields operated by Water. In addition, Gas owns property within the evaluation area. In June 2017, the EPA acknowledged its agreement with the Indiana Department of Environmental Management (IDEM) to defer final listing of the proposed site to the NPL whereby IDEM will oversee response actions at the site. It is probable that the company will incur costs related to IDEM's response actions. While those amounts are not reasonably estimable at this time due to the early stages of this process, management does not anticipate they will have a material effect on its financial position, operations, equity, or cash flows at this time.

Water System

The Water System is currently in compliance with the requirements of the Clean Water Act, the Safe Drinking Water Act, the Disinfectants and Disinfection Byproducts Rule, the Enhanced Surface Water Treatment Rule, the Radon Rule and other applicable laws, except to the extent that such non-compliance would not have a material adverse effect on the Water System.

Wastewater System

The Wastewater System is subject to wastewater collection and treatment requirements under both federal and state law. Those requirements are contained in a National Pollutant Discharge Elimination System (NPDES) permit. Both United States Environmental Protection Agency and Indiana Department of Environmental Management have jurisdiction over the Wastewater System. As authorized by the Clean Water Act, the NPDES permit program controls water pollution by regulating point sources that discharge pollutants into water of the United States.

Combined Sewer Overflow Long-Term Control Plan Consent Decree

As was the common engineering practice during the late 1800's through the early 1900's, the older portion of the Wastewater System was designed to carry both stormwater and sanitary waste (also referred to as a "combined sewer system"). In times of wet weather, the capacity of the combined portion of the System can be overloaded. Combined Sewer Overflow (CSO) outfalls that discharge to Indianapolis' waterways were constructed as relief points to prevent combined stormwater and sewage from backing up into homes, businesses and streets. The EPA requires communities to implement specific minimum controls and to develop and implement long-term control plans (LTCPs) to reduce CSOs by capturing or eliminating these overflows. The City of Indianapolis (the City), Indiana Department of Environmental Management (IDEM), U.S. Environmental Protection Agency, and the U.S. District Court entered into a Consent Decree in 2006 that established a LTCP to address the System's combined sewer system. The plan established a 20 year schedule for the required combined sewer system and advanced wastewater treatment plant (AWTP) improvements.

Upon acquisition of the Wastewater System in August 2011, CWA Authority (the Authority) assumed the City's obligations under the order of the U.S. District Court for the Southern District of Indiana (the Court) dated December 19, 2006, among the EPA, IDEM, and the City, as amended (the Consent Decree). The Authority has a capital improvement plan to meet guidelines of the Consent Decree and the overall needs of the Wastewater System. The improvements related to the Consent Decree and LTCP have been planned and scheduled through 2025. The DigIndy program, the most significant element of the Consent Decree, is the largest sewer infrastructure project in Indianapolis' history. The Deep Rock Tunnel Connector (DRTC) is the first segment of a 250 feet deep, 28-mile underground tunnel system designed to store 250 million gallons of combined sewage during wet weather events to prevent overflows from entering area rivers and streams. The stored flows will be pumped to the Southport AWTP, which was expanded as a part of this Consent Decree. The Belmont AWTP was also expanded as part of the Consent Decree and this work was completed in 2012. On December 29, 2017, the first 10 miles of the DigIndy Tunnel system and the DRTC pump station were operational and available for use. Mining for the White River and Lower Pogues Run tunnels began in September 2016, and approximately 5.5 miles were mined through fiscal year 2018. The Authority estimates the projected cost of the Consent Decree, including capital and operation and maintenance costs, is approximately $2.0 billion in 2016 dollars.

B. Legal Contingencies

Citizens and CWA are party to litigation in the normal course of business in which the payments for damages may be substantial but cannot be determined. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes that these matters ultimately will be resolved in a manner which will not materially adversely affect the financial position, operations, equity or cash flows of Citizens and CWA.

11. SUBSEQUENT EVENTS

Management has considered the impact of subsequent events through February 20, 2019, the date at which these condensed combined financial statements were issued.