

# Quarterly Financial Report

Q1 - 2021

Citizens Wastewater workers  
preparing storm drains for  
winter weather.





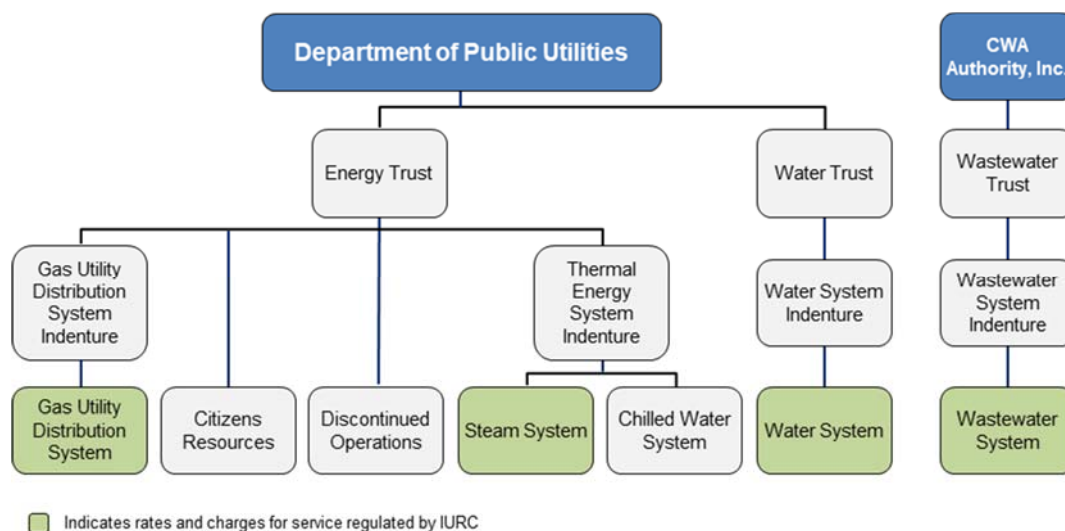
## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 potential and expected effects of the COVID-19 pandemic in addition 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.

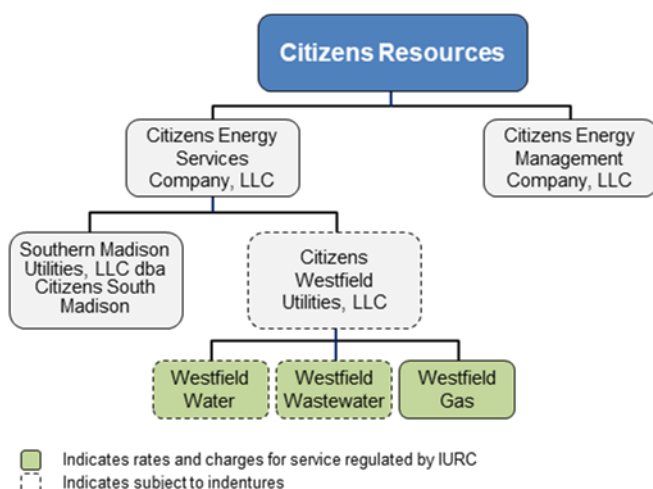
The Gas Utility Distribution System, the Thermal Energy System, Citizens Resources and certain other properties are subject to the Energy Trust. The Water System is subject to a separate public charitable trust (the Water Trust) that operates in substantially the same manner as the Energy Trust.

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; (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.<sup>1</sup> 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.<sup>2</sup> 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 nearby for a diagram of Citizens Resources' organizational structure.



<sup>1</sup> 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.

<sup>2</sup> 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, 2020 and 2019. Because of the seasonal nature of the various business units, results of operations for the period ended December 31, 2020 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 1C – COVID-19
- Note 3 – Long-Term Debt
- Note 5 – Revenue Recognition
- Note 6 – Financial Segment Information
- Note 9 – Discontinued Operations and Related Asset Retirement Obligations
- Note 10 – Rate and Regulatory Matters
- Note 11 – Commitments and Contingencies

## SHARED SERVICES

Shared services is comprised of various administrative and operational departments that provide support services to each of Citizens and CWA business segments and the combined enterprise as a whole, allocating 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		
	2020	2019	Change
Shared Services Expenses	\$ 26.3	\$ 23.6	\$ 2.7

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

### Three Months Ended December 31, 2020 as Compared with 2019

Shared services expenses increased \$2.7 million primarily due to:

- \$1.0 million increased labor and employee benefit costs;
- \$0.9 million increased software, hardware and IT support costs; and
- \$0.6 million higher depreciation expense.

## GAS

	Three Months Ended Dec 31		
	2020	2019	Change
Operating revenues	\$ 73.0	\$ 70.9	\$ 2.1
Cost of goods sold	28.5	29.2	(0.7)
Margin	44.5	41.7	2.8
Other operating expenses	23.4	23.2	0.2
Operating income (loss)	21.1	18.5	2.6
Other income (expense), net	(0.4)	(0.5)	0.1
Interest charges	1.5	2.3	(0.8)
Segment income (loss)	\$ 19.2	\$ 15.7	\$ 3.5

Volume sales, million Dth

Retail	9.3	9.6	(0.3)
Transportation	5.1	5.3	(0.2)
Power generation and other	3.8	3.5	0.3
Cost of gas sold, per Dth	\$ 3.08	\$ 3.02	\$ 0.06
Heating degree days	1,767	1,965	(198)

### Three Months Ended December 31, 2020 as Compared with 2019

The increase in earnings of \$3.5 million was primarily the result of:

- Higher margin primarily attributable to normal temperature adjustments; and
- Decreased interest expense driven by a lower amount of debt outstanding.

**STEAM**

	Three Months Ended Dec 31		
	2020	2019	Change
Operating revenues	\$ 17.1	\$ 17.4	\$ (0.3)
Cost of goods sold	8.7	8.5	0.2
Margin	8.4	8.9	(0.5)
Other operating expenses	6.1	6.3	(0.2)
Operating income (loss)	2.3	2.6	(0.3)
Other income (expense), net	-	-	-
Interest charges	0.6	0.7	(0.1)
Segment income (loss)	\$ 1.7	\$ 1.9	\$ (0.2)
Volume sales, million therms	14.1	14.4	(0.3)
Heating degree days	1,767	1,965	(198)

**Three Months Ended December 31, 2020 as Compared with 2019**

The decrease in earnings of \$0.2 million primarily resulted from lower margin due to decreased demand attributable to warmer weather compared with the prior year.

**CHILLED WATER**

	Three Months Ended Dec 31		
	2020	2019	Change
Operating revenues	\$ 5.6	\$ 5.6	\$ -
Cost of goods sold	1.7	1.9	(0.2)
Margin	3.9	3.7	0.2
Other operating expenses	4.1	3.6	0.5
Operating income (loss)	(0.2)	0.1	(0.3)
Other income (expense), net	-	-	-
Interest charges	0.2	0.2	-
Segment income (loss)	\$ (0.4)	\$ (0.1)	\$ (0.3)
Volume sales, million ton hours	15.4	16.8	(1.4)
Cooling degree days	23	37	(14)

**Three Months Ended December 31, 2020 as Compared with 2019**

The decrease in earnings of \$0.3 million primarily resulted from higher plant maintenance expenses.

**WATER**

	Three Months Ended Dec 31		
	2020	2019	Change
Operating revenues	\$ 49.0	\$ 49.4	\$ (0.4)
Other operating expenses	29.7	29.3	0.4
Operating income (loss)	19.3	20.1	(0.8)
Other income (expense), net	0.8	1.0	(0.2)
Interest charges	8.7	9.2	(0.5)
Segment income (loss)	\$ 11.4	\$ 11.9	\$ (0.5)
Volume sales, billion gallons	8.8	9.1	(0.3)
Precipitation, inches	10.6	10.1	0.5

**Three Months Ended December 31, 2020 as Compared with 2019**

The decrease in earnings of \$0.5 million was driven by a variety of largely offsetting factors, none of which were individually significant.

**WASTEWATER**

	Three Months Ended Dec 31		
	2020	2019	Change
Operating revenues	\$ 74.8	\$ 75.6	\$ (0.8)
Other operating expenses	41.4	41.1	0.3
Operating income (loss)	33.4	34.5	(1.1)
Other income (expense), net	-	0.8	(0.8)
Interest charges	16.2	17.5	(1.3)
Segment income (loss)	\$ 17.2	\$ 17.8	\$ (0.6)
Treatment volume sales, billion gallons	7.1	7.5	(0.4)
Strength surcharge, million pounds	13.0	13.8	(0.8)

**Three Months Ended December 31, 2020 as Compared with 2019**

The decrease in earnings of \$0.6 million was primarily the result of the following:

- The effect of a step 2 rate increase implemented on September 28, 2020 was negated by decreased treatment volumes and lower industrial strength surcharge revenues, resulting in a net revenue decline of \$0.8 million.
- Additional interest expense resulting from the issuance of 2020 series bonds was more than offset by increased capitalized interest, resulting in a net decrease of \$1.3 million for interest charges.

**RESOURCES**

	Three Months Ended Dec 31		
	2020	2019	Change
Operating revenues	\$ 9.1	\$ 8.6	\$ 0.5
Cost of goods sold	0.5	0.5	-
Margin	8.6	8.1	0.5
Other operating expenses	5.3	5.1	0.2
Operating income (loss)	3.3	3.0	0.3
Other income (expense), net	0.1	0.1	-
Equity in earnings (loss) of affiliates	-	(0.1)	0.1
Interest charges	0.5	0.6	(0.1)
Segment income (loss)	\$ 2.9	\$ 2.4	\$ 0.5

**Three Months Ended December 31, 2020 as Compared with 2019**

The increase in earnings of \$0.5 million was primarily due to higher gross margin from the Westfield Utilities.

**OTHER**

	Three Months Ended Dec 31		
	2020	2019	Change
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	-	-	-
Operating income (loss)	-	-	-
Other income (expense), net	(0.3)	(0.2)	(0.1)
Interest charges	-	0.1	(0.1)
Income (loss) from discontinued operations	(0.1)	(0.2)	0.1
Segment income (loss)	\$ (0.4)	\$ (0.5)	\$ 0.1

In the table above, Other includes advertising and philanthropic costs which 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.

## LIQUIDITY AND CAPITAL RESOURCES

### Debt and Liquidity

Please see Notes 3 and 4 to the condensed combined financial statements for information regarding changes to Citizens' and CWA's outstanding long-term debt and short-term borrowings, respectively.

Management believes that existing sources of liquidity are sufficient to meet its cash requirements for the foreseeable future. However, as the impacts of the COVID-19 pandemic on the economy, the financial markets, and Citizens' and CWA's operations evolve, Management will continue to assess liquidity needs and monitor capital markets and other financing sources. Though not currently anticipated, no assurances can be provided that Citizens and CWA will be able to access financing in the future on acceptable terms.

### Capital Spending

For the three months ended December 31, 2020, capital expenditures, on an accrual basis, decreased by \$8.2 million to \$66.9 million from \$75.1 million during the same period last year. This decrease is summarized in the table below (in millions). Certain accrued expenditures, including all capitalized interest, have been included in Other for segment presentation of Capital 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
<b>Q1 2021</b>	<b>\$ 7.0</b>	<b>\$ 1.1</b>	<b>\$ 0.8</b>	<b>\$ 10.6</b>	<b>\$ 38.1</b>	<b>\$ 2.4</b>	<b>\$ 6.9</b>	<b>\$ 66.9</b>
<b>Q1 2020</b>	<b>8.2</b>	<b>0.9</b>	<b>1.6</b>	<b>15.8</b>	<b>38.1</b>	<b>2.4</b>	<b>8.1</b>	<b>75.1</b>
	<b>\$ (1.2)</b>	<b>\$ 0.2</b>	<b>\$ (0.8)</b>	<b>\$ (5.2)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1.2)</b>	<b>\$ (8.2)</b>

Citizens' and CWA's projected capital spending requirement of \$341.5 million for 2021 is summarized as follows (in millions):

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
<b>2021 Projection</b>	<b>\$ 31.2</b>	<b>\$ 4.9</b>	<b>\$ 3.8</b>	<b>\$ 55.6</b>	<b>\$ 194.8</b>	<b>\$ 13.9</b>	<b>\$ 37.3</b>	<b>\$ 341.5</b>

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 \$35.1 million at December 31, 2020. Gas expects to meet its capital spending requirements in 2021 through cash flows from operations.

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, 2020, cash and cash equivalents of Steam and Chilled Water amounted to \$3.5 million and \$21.0 million, respectively. Steam expects to meet its capital spending requirements in 2021 through cash flows from operations and temporary seasonal borrowings while Chilled Water expects to meet its 2021 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 \$46.8 million at December 31, 2020. Water expects to meet its capital spending requirements in 2021 through cash flows from operations and use of working capital.

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 11 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 \$98.6 million at December 31, 2020. Wastewater expects to meet its capital spending requirements in 2021 through a combination of cash flows from operations and available funds from issuances of the Series 2020A and 2020B bonds. See Note 10 – 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 2021 includes activities at Citizens South Madison, Westfield Gas, Westfield Water, and Westfield Wastewater. Resources expects to meet its capital spending requirements in 2021 through a combination of cash flows from operations, its lines of credit, and available funds from the Series 2019A bond issuance for Westfield Wastewater.

## Citizens Energy Group and Subsidiary and CWA Authority Inc.

## Condensed Combined Statements of Financial Position (Unaudited)

(In Thousands)

	At December 31, 2020	At September 30, 2020
<b>ASSETS</b>		
<b>Property, plant, and equipment, net</b>	\$ 4,134,243	\$ 4,086,342
Intangible assets, net	53,266	54,192
<b>Investments</b>		
Bond restricted funds	286,496	302,395
Other	26,381	26,185
Total investments	312,877	328,580
<b>Current assets</b>		
Cash and cash equivalents	243,921	274,921
Accounts receivable, less allowance for doubtful accounts of \$6,685 and \$5,602, respectively	96,467	85,120
Accrued utility revenue	34,892	24,234
Natural gas in storage	28,295	30,459
Materials and supplies	12,334	12,108
Other current assets	5,084	4,070
Current assets directly related to discontinued operations	615	1,076
<b>Total current assets</b>	421,608	431,988
Deferred charges and other non-current assets	27,853	32,394
<b>TOTAL ASSETS</b>	<b>\$ 4,949,847</b>	<b>\$ 4,933,496</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization and non-current liabilities</b>		
Retained earnings	\$ 862,004	\$ 810,393
Accumulated other comprehensive loss	(168,601)	(171,848)
Long-term debt (excluding current maturities)	3,345,272	3,339,747
Retirement benefits	199,353	204,254
Contributions in aid of construction	325,536	312,029
Other long-term liabilities	36,999	35,464
Non-current liabilities directly related to discontinued operations	22,945	23,339
Total capitalization and non-current liabilities	4,623,508	4,553,378
<b>Current liabilities</b>		
Current maturities of long-term debt	101,203	100,028
Short-term borrowings	1,500	1,000
Accounts payable and accrued expenses	140,280	182,414
Accrued taxes	57,911	69,301
Customer deposits	16,156	17,560
Other current liabilities	9,165	9,575
Current liabilities directly related to discontinued operations	124	240
Total current liabilities	326,339	380,118
<b>Commitments and contingencies (see note 11)</b>		
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 4,949,847</b>	<b>\$ 4,933,496</b>

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,	
	2020	2019
Operating revenues	\$ 227,388	\$ 225,421
Operating expenses		
Cost of goods sold	38,540	38,498
Operations and maintenance	64,189	64,230
Depreciation and amortization	30,118	29,101
Taxes	15,452	14,700
Total operating expenses	148,299	146,529
Operating income	79,089	78,892
Other income (expense), net		
Interest income	562	1,790
Non-operating post-employment benefits, net	134	(487)
Other	(392)	(306)
Total other income, net	304	997
Income before equity in earnings of affiliates and interest charges	79,393	79,889
Equity in earnings (losses) of affiliates	-	(135)
Interest charges		
Interest on long-term debt	37,525	37,451
Other interest, including net premium amortization	(9,868)	(7,009)
Total interest charges	27,657	30,442
Income from continuing operations	51,736	49,312
Loss from discontinued operations	(125)	(202)
<b>Net income</b>	<b>\$ 51,611</b>	<b>\$ 49,110</b>
Retirement benefit liability changes:		
Amortization of prior service credit	(534)	(543)
Amortization of loss	3,326	2,876
Total retirement benefit liability changes	2,792	2,333
Unrealized gain on available-for-sale investments	455	136
Total other comprehensive income	3,247	2,469
<b>Total comprehensive income</b>	<b>\$ 54,858</b>	<b>\$ 51,579</b>

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,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 51,611	\$ 49,110
Depreciation and amortization	26,101	25,878
Equity in (earnings) losses of affiliates, net of distributions	-	135
Allowance for doubtful accounts	1,209	1,153
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(23,217)	(18,034)
Natural gas in storage	2,164	1,202
Accounts payable and accrued expenses	(43,322)	(46,761)
Retirement benefits	(2,109)	(1,924)
Other operating activities	2,092	2,168
Change in net liabilities of discontinued operations	(51)	15
Net cash provided by operating activities	14,478	12,942
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction expenditures	(77,518)	(100,563)
Other investing activities	49	(322)
Net cash used in investing activities	(77,469)	(100,885)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bank line of credit	2,500	-
Repayment of short-term borrowings and bank line of credit	(2,000)	(80,000)
Principal payments of long-term debt and bond refunding	(58,765)	(55,160)
Proceeds from issuance of long-term debt and bond refunding	70,475	231,219
Bond issuance costs	(293)	(454)
Contributions in aid of construction	3,844	8,048
Other financing activities	174	147
Net cash provided by (used in) financing activities	15,935	103,800
Net change in cash, cash equivalents, and restricted cash	(47,056)	15,857
Cash, cash equivalents, and restricted cash at beginning of period	568,738	477,839
Cash, cash equivalents, and restricted cash at end of period	\$ 521,682	\$ 493,696
Supplemental Cash Flows Information - Interest paid	\$ 53,599	\$ 56,677
<b>Non-cash Investing and Operating Activities</b>		
Construction work-in-progress accrued at end of period	\$ 38,828	\$ 36,347

The table below provides a reconciliation of cash, cash equivalents, and restricted cash as reported in the Condensed Combined Statements of Financial Position to the amount reported in the Condensed Combined Statements of Cash Flows:

Cash and cash equivalents	\$ 243,921	\$ 191,038
Restricted cash included in Bond restricted funds	273,484	298,231
Restricted cash included in Investments, Other	4,277	4,427
Cash, cash equivalents, and restricted cash at end of period	\$ 521,682	\$ 493,696

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
<b>Balance at September 30, 2019</b>	<b>\$ 625,845</b>	<b>\$ (144,502)</b>	<b>\$ 481,343</b>
Comprehensive income			
Net income	49,110	-	49,110
Unrealized gain (loss) on available-for-sale investments	-	136	136
Retirement benefit liability changes	-	2,333	2,333
Total comprehensive income	49,110	2,469	51,579
Customer benefit distributions	-	-	-
<b>Balance at December 31, 2019</b>	<b>\$ 674,955</b>	<b>\$ (142,033)</b>	<b>\$ 532,922</b>
<b>Balance at September 30, 2020</b>	<b>\$ 810,393</b>	<b>\$ (171,848)</b>	<b>\$ 638,545</b>
Comprehensive income			
Net income	51,611	-	51,611
Unrealized gain (loss) on available-for-sale investments	-	455	455
Retirement benefit liability changes	-	2,792	2,792
Total comprehensive income	51,611	3,247	54,858
Customer benefit distributions	-	-	-
<b>Balance at December 31, 2020</b>	<b>\$ 862,004</b>	<b>\$ (168,601)</b>	<b>\$ 693,403</b>

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

## NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS

*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 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). 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.

#### 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, 2020. Because of the seasonal nature of the various business segments, the results of operations for the period ended December 31, 2020 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.

#### C. COVID-19

The outbreak of COVID-19 has been declared a pandemic by the World Health Organization, a national emergency by the President of the United States and continues to spread in the United States. Effects from the COVID-19 pandemic began at the end of the second quarter of fiscal 2020 and were not material to the results for the three months ended December 31, 2020.

On March 6, 2020, Indiana Governor Eric Holcomb issued Executive Order 20-02 declaring a public health disaster emergency in Indiana attributable to COVID-19. To address the social and economic impacts of COVID-19, Governor Holcomb has issued several other executive orders, including Executive Orders 20-05 and 20-33 on March 19, 2020 and June 30, 2020, respectively. Executive Order 20-05 provided that providers of gas and electric utilities, broadband, telecommunication, water and wastewater services were prohibited from discontinuing service to any customer in the State, because these services are essential to Indiana residents and businesses, particularly during this state of public health emergency. Executive Order 20-33 extended the prohibition on utility disconnections until August 14, 2020 pursuant to an order issued by the IURC. On August 12, 2020, the IURC issued an order directing that the disconnect moratorium prohibiting disconnections would not be extended beyond August 14, 2020.

The full extent of COVID-19's impact on our operations and financial performance depends on future developments that are uncertain and unpredictable, including the duration and spread of the pandemic, its impact on capital and financial markets, the financial losses incurred by our customers and business partners, and any new information which may emerge concerning the severity of the virus, its spread, as well as the actions taken to contain it, among others. While the Company has not been materially impacted by COVID-19 to date, the extent of the outbreak and its future impact on the Company's financial position, results of operations and cash flows is uncertain and cannot be reasonably estimated at this time. See Note 5, Revenue Recognition, and Note 10, Rate and Regulatory Matters, for information on COVID-19.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Use of Estimates

The preparation of the combined financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the amounts reported in the combined financial statements and the accompanying notes. Key



estimates include the recoverability of regulatory assets; fair value estimates; asset lives used in computing depreciation and amortization; asset retirement obligations; other reserves and accruals; and the estimated impact of contingencies and ongoing litigation. While management believes that its estimates are reasonable when considered in conjunction with the Company's combined financial position and results of operations, actual results could differ materially from those estimates.

## **B. Derivatives and Hedging**

In fiscal years 2021 and 2020, 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 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 Financial Accounting Standards Board (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 and Fuel Cost Adjustment trackers. 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.

## **C. Fair Value Measurements**

Financial Accounting Standards Board (FASB) guidance requires additional disclosures about Citizens' and CWA's financial assets and liabilities which 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, 2020 and September 30, 2020 (in thousands). There were no financial liabilities at December 31, 2020 and September 30, 2020.

Description	December 31, 2020 Fair Value Measurements Using		
	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	\$ 53,643	\$ -	\$ -
Bond restricted funds	273,484	-	-
Grantor Trust investments	16,964	-	-
Derivative assets	625	-	-
Total financial assets measured at fair value	<u>\$ 344,716</u>	<u>\$ -</u>	<u>\$ -</u>

Description	September 30, 2020 Fair Value Measurements Using		
	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	\$ 53,633	\$ -	\$ -
Bond restricted funds	289,383	-	-
Grantor Trust investments	16,503	-	-
Derivative assets	822	-	-
Total financial assets measured at fair value	<u>\$ 360,341</u>	<u>\$ -</u>	<u>\$ -</u>

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 \$286.5 and \$302.4 million at December 31, 2020 and September 30, 2020, 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, 2020 and September 30, 2020.

Included in bond restricted funds are the following proceeds which are held by the Indiana Finance Authority (IFA) until certain conditions for disbursement are met (in thousands):

	December 31, 2020	September 30 2020
CWA First Lien State Revolving Fund Bonds, Series 2019 B	\$ -	\$ 14,384
CWA First Lien State Revolving Fund Bonds, Series 2020 B	51,420	-

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 2021 and 2020 were \$133.6 million and \$239.2 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. Using this method, the estimated fair value of debt is \$3.6 billion and \$3.5 billion at December 31, 2020 and September 30, 2020, respectively, versus the carrying value of \$3.4 billion at December 31, 2020 and September 30, 2020. In the case of Resources debt, the carrying value approximates fair value.

Customers' advances for construction have a carrying value at December 31, 2020 for Water, Wastewater, and Resources of \$12.7 million, \$5.0 million, and \$10.7 million, respectively, versus the carrying values at September 30, 2020 for Water, Wastewater, and Resources of \$12.1 million, \$4.9 million, and \$9.5 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 2030 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.

**D. 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 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, 2020 (in thousands):

	Pension Plan	Other Postemployment Benefits	Other	Total
Accumulated other comprehensive (loss) income at September 30, 2020	\$ (175,727)	\$ 3,534	\$ 345	\$ (171,848)
Other comprehensive (loss) income before reclassifications				-
Amounts reclassified from accumulated other comprehensive income (loss)	3,258	(466)	455	3,247
Net current-period other comprehensive (loss) income	3,258	(466)	455	3,247
Accumulated other comprehensive (loss) income at December 31, 2020	\$ (172,469)	\$ 3,068	\$ 800	\$ (168,601)

**3. LONG-TERM DEBT**

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

	December 31, 2020			September 30, 2020		
	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)
<b>Gas</b>						
Gas Utility Distribution System Series 2008C, Second Lien Revenue Refunding Bonds, 5.25%, due 2021	\$ -	\$ 11,550	\$ 48	\$ -	\$ 11,550	\$ 77
Gas Utility Distribution System Series 2013A, Second Lien Revenue Refunding Bonds, 4.125% to 5.250%, due 2027 to 2030	54,465	-	1,021	54,465	-	1,046
Gas Utility Distribution System Series 2017A, Second Lien Revenue Refunding Bonds 5.00%, due 2025 to 2027	49,825	-	5,815	49,825	-	6,056
Gas Utility Distribution System Series 2020A Second Lien Revenue Refunding Bonds 5.00%, due 2021 to 2024	48,530	3,890	5,656	48,530	3,890	6,223
Subtotal Gas Long-Term Debt	152,820	15,440	12,540	152,820	15,440	13,402

	(In Thousands)					
	December 31, 2020			September 30, 2020		
	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)
<b><u>Thermal</u></b>						
Thermal Energy System Series 2010A, First Lien Revenue Refunding Bonds, 4.00%, due 2020	-	-	-	-	530	-
Thermal Energy System Series 2010B, First Lien Revenue Refunding Bonds, 5.00%, due 2021	-	5,500	85	5,500	8,810	114
Thermal Energy System Series 2013A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2021 to 2033	6,010	370	34	6,380	355	36
Thermal Energy System Series 2014A, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2021 to 2034	26,695	1,435	2,168	28,130	1,365	2,233
Thermal Energy System Series 2016A, First Lien Revenue Refunding Bonds, 5.00%, due 2021 to 2029	46,335	4,075	4,524	50,410	-	4,859
Subtotal Thermal Long-Term Debt	79,040	11,380	6,811	90,420	11,060	7,242
<b><u>Water</u></b>						
Water Utility Series 2011C (ILPIBB 2006A) *, First Lien Net Revenue Bonds, 5.50%, due 2021 to 2022	7,795	16,585	(14)	7,795	16,585	(15)
Water Utility Series 2011D (ILPIBB 2007B) *, First Lien Net Revenue Bonds, 5.25%, due 2022 to 2025	70,410	-	(41)	70,410	-	(43)
Water Utility Series 2011G (ILPIBB 2011E) *, First Lien Net Revenue Bonds, 4.50% to 5.125%, due 2021 to 2041	47,550	1,380	(28)	47,550	1,380	(30)
Water Utility Series 2014A, First Lien Net Revenue Bonds, 4.00% to 5.00%, due 2021 to 2044	23,565	580	1,378	24,145	555	1,391
Water Utility Series 2014B, Second Lien Revenue Refunding Bonds, 2.95%, due 2022	43,595	-	(73)	43,595	-	(84)
Water Utility Series 2016A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2021 to 2046	63,110	1,270	11,066	64,380	1,225	11,205



	(In Thousands)					
	December 31, 2020			September 30, 2020		
	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 Utility Series 2016B, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2021 to 2038	200,690	4,265	28,885	204,955	6,090	29,489
Water Utility Series 2018A, First Lien Refunding Revenue Bonds, 3.50% to 5.00%, due 2021 to 2038	354,475	2,285	43,884	356,760	2,410	44,683
Subtotal Water Long-Term Debt	811,190	26,365	85,057	819,590	28,245	86,596
<b><u>Wastewater</u></b>						
CWA Wastewater Utility Series 2011A, First Lien Revenue Bonds, 5.00% to 5.25%, due 2021 to 2041	556,130	15,605	23,770	571,735	14,865	24,169
CWA Wastewater Utility Series 2011B, Second Lien Revenue Bonds, 5.00% to 5.25%, due 2021 to 2041	224,820	6,365	3,577	231,185	6,060	3,649
CWA Wastewater Utility Series 2012A, First Lien Revenue Bonds, 2.75% to 5.00%, due 2021 to 2042	161,820	4,440	12,451	166,260	4,225	12,681
CWA Wastewater Utility Series 2014A, First Lien Revenue Bonds, 4.25% to 5.00%, due 2021 to 2044	207,780	4,785	16,640	212,565	4,555	16,887
CWA Wastewater Utility Series 2015A, First Lien Revenue Bonds, 3.25% to 5.00%, due 2021 to 2045	142,175	3,105	18,549	145,280	2,960	18,793
CWA Wastewater Utility Series 2016A, First Lien Revenue Bonds 4.00% to 5.00%, due 2021 to 2046	177,540	3,385	33,157	180,925	3,255	33,565
CWA Wastewater Utility Series 2016B, Second Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2021 to 2046	39,325	900	1,825	40,225	875	1,873
CWA Wastewater Series 2016C, First Lien Revenue Bonds (SRF), 2.00%, due 2021 to 2036	9,920	565	(67)	9,920	565	(69)
CWA Wastewater Series 2017A, First Lien Revenue Bonds (SRF), 3.53%, due 2021 to 2047	150,066	3,490	(68)	150,066	3,490	(69)
CWA Wastewater Series 2019A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2021 to 2049	40,255	665	8,087	40,920	630	8,176

	(In Thousands)					
	December 31, 2020			September 30, 2020		
	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 Series 2019B, First Lien Revenue Bonds (SRF), 2.99%, due 2021 to 2050	176,852	3,803	(72)	176,851	3,803	(73)
CWA Wastewater Series 2020A First Lien Revenue Bonds 3.00% to 5.00% due 2021 to 2050	56,175	910	12,868	57,085	-	13,240
CWA Wastewater Series 2020B First Lien Revenue Bonds (SRF) 2.56%, due 2022 to 2051	70,475	-	(75)	-	-	-
Subtotal Wastewater Long-Term Debt	2,013,333	48,018	130,642	1,983,017	45,283	132,822
<b>Resources</b>						
Citizens Westfield Utilities Series 2018A, Refunding Revenue Bonds, 80% of 3-month LIBOR plus 1.90%, due 2023	9,000	-	(119)	9,000	-	(130)
Citizens Westfield Water Series 2019A, Revenue Bonds, 4.00%, due 2048	20,000	-	(75)	20,000	-	(76)
Citizens Westfield Wastewater Series 2019A, Revenue Bonds, 5.00%, due 2048	22,660	-	2,373	22,660	-	2,384
Subtotal Resources Long-Term Debt	51,660	-	2,179	51,660	-	2,178
Total Long-Term Debt	<u>\$ 3,108,043</u>	<u>\$ 101,203</u>	<u>\$ 237,229</u>	<u>\$ 3,097,507</u>	<u>\$ 100,028</u>	<u>\$ 242,240</u>

\* Indianapolis Local Public Improvement Bond Bank (ILPIBB)

### Recent Debt Transaction Activity

On July 15, 2020, Citizens Gas issued \$52.4 million of Second Lien Refunding Revenue Bonds, Series 2020A. The bonds refunded all but the current portion of the Series 2010A bonds. The 2020A bonds were issued at a premium of \$7.1 million and have principal maturities due from 2021 through 2024 with 5.00% coupons.

On September 24, 2020, CWA issued \$57.1 million of First Lien Wastewater Utility Revenue Bonds, Series 2020A. The 2020A bonds were issued at a premium of \$13.6 million and have principal maturities from 2021 to 2050 with coupons ranging from 3.00% to 5.00%. The bonds were issued to fund capital improvements for the Wastewater system.

On October 5, 2020, CWA issued \$70.5 million of First Lien State Revolving Fund Bonds, Series 2020B. The 2020B bonds were issued at par and have principal maturities between 2022 and 2051 with coupons of 2.56%. The bonds were issued to fund specified consent decree capital projects for the Wastewater system (see Note 11).

#### 4. SHORT-TERM AND OTHER BORROWINGS

Citizens Gas, Thermal, Water, and 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	(in millions)	
					December 31, 2020	September 30, 2020
Gas - Letter of Credit	\$50.0 million	May 30, 2022	Base + 1.00%	0.450%	\$ -	\$ -
Gas	25.0 million	August 5, 2022	LIBOR + 0.90%	0.100%	-	-
Gas	25.0 million	August 13, 2021	LIBOR + 1.25%	0.300%	-	-
Thermal	20.0 million	July 25, 2022	LIBOR + 1.125%	0.125%	-	-
Water	50.0 million	November 2, 2020	83% of LIBOR + 0.70%	0.150%	*	-
Water	25.0 million	November 18, 2022	82% of LIBOR + 1.31%	0.200%	-	**
Water	25.0 million	November 2, 2023	83% of LIBOR + 0.95%	0.250%	-	**
Wastewater	100.0 million	October 14, 2020	87.8% of LIBOR + 0.84%	0.220%	*	-
Wastewater	45.0 million	July 15, 2022	80% of LIBOR + 0.75%	0.275%	-	-
Wastewater	50.0 million	October 14, 2022	80% of LIBOR + 0.68%	0.220%	-	**

\* Line of credit matured prior to December 31, 2020

\*\* Line of credit initiated after September 30, 2020

On October 1, 2020, Wastewater 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 October 14, 2020 to October 14, 2022. The line of credit is at an interest rate of 80% of LIBOR plus 0.68 percent and a commitment fee of 0.22 percent.

On November 18, 2020, Water closed on a \$25.0 million line of credit with a maturity date of November 18, 2022. The line of credit is at an interest rate of 82% of LIBOR plus 1.31 percent and a commitment fee of 0.20 percent.

On November 18, 2020, Water closed on a second, separate \$25.0 million line of credit with a maturity date of November 2, 2023. The line of credit is at an interest rate of 83% of LIBOR plus 0.95 percent and a commitment fee of 0.25 percent.

#### 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, 2020	September 30, 2020
Westfield Gas	\$4.0 million	March 30, 2021	LIBOR + 1.65%	0.150%	\$ 1.5	\$ 1.0
Westfield Water	5.0 million	March 14, 2022	LIBOR + 0.90%	0.100%	1.0	1.0
Westfield Wastewater	5.0 million	March 14, 2022	LIBOR + 0.90%	0.100%	-	-

Outstanding borrowings with maturities of twelve months or less from the balance sheet date are presented as current liabilities in the 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 Combined Statements of Financial Position in the line item labeled, "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 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 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 with the exception of the temporary suspension of shutoffs noted below. 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.

<u>Gas</u>	<u>Steam</u>	<u>Chilled Water</u>	<u>Water</u>	<u>Wastewater</u>	<u>Westfield Utilities</u>
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 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 10 – 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, 2020

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Intercompany Eliminations	Total
Residential	\$ 51,743	\$ -	\$ -	\$ 28,809	\$ 39,592	\$ 5,588	\$ -	\$ 125,732
Commercial	17,831	9,690	5,499	16,197	23,193	1,614	(954)	73,070
Industrial	2,895	7,265	85	2,422	9,673	87	(265)	22,162
Other	537	129	-	1,573	2,334	1,846	-	6,419
Revenues - Contracts w/Customers	73,006	17,084	5,584	49,001	74,792	9,135	(1,219)	227,383
Alternative Revenue Programs	-	-	-	-	-	5	-	5
Gross Operating Revenues	\$ 73,006	\$ 17,084	\$ 5,584	\$ 49,001	\$ 74,792	\$ 9,140	\$ (1,219)	\$ 227,388

## Three Months Ended December 31, 2019

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Intercompany Eliminations	Total
Residential	\$ 48,734	\$ -	\$ -	\$ 27,600	\$ 38,041	\$ 5,055	\$ (18)	\$ 119,412
Commercial	18,685	10,303	5,576	17,342	24,933	1,521	(1,833)	76,527
Industrial	2,889	7,001	84	2,577	10,872	194	(339)	23,278
Other	617	118	-	1,932	1,840	1,773	-	6,280
Revenues - Contracts w/Customers	70,925	17,422	5,660	49,451	75,686	8,543	(2,190)	225,497
Alternative Revenue Programs	-	-	-	-	(86)	10	-	(76)
Gross Operating Revenues	\$ 70,925	\$ 17,422	\$ 5,660	\$ 49,451	\$ 75,600	\$ 8,553	\$ (2,190)	\$ 225,421

Accounts Receivable and Unbilled Revenue

Amounts due from customers are reflected on the 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, 2020 and 2019 are presented in the tables below.

In response to the COVID-19 pandemic, Citizens and CWA suspended shut-offs for nonpayment across all customer classes from March to August 2020. In addition, Citizens and CWA are offering flexible payment plans to customers impacted or experiencing hardship as a result of COVID-19. At December 31, 2020, the Company's allowance for doubtful accounts is \$6.7 million compared with \$5.6 million at September 30, 2020. The adverse impact that COVID-19 will have on customers' ability to pay is unknown and difficult to predict; however, management is monitoring changing circumstances and will adjust, if necessary, the allowance for doubtful accounts as additional information becomes available.

## Accounts Receivable, net

<u>\$ Thousands</u>	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Total
Balance at December 31, 2020	\$ 27,374	\$ 9,727	\$ 3,985	\$ 23,462	\$ 28,941	\$ 2,978	\$ 96,467
Balance at September 30, 2020	12,232	6,437	7,520	24,330	30,686	3,915	85,120
Increase (Decrease)	\$ 15,142	\$ 3,290	\$ (3,535)	\$ (868)	\$ (1,745)	\$ (937)	\$ 11,347
Balance at December 31, 2019	\$ 27,344	\$ 6,569	\$ 1,854	\$ 19,054	\$ 28,236	\$ 3,970	\$ 87,027
Balance at September 30, 2019	11,088	6,284	4,916	22,419	28,255	3,833	76,795
Increase (Decrease)	\$ 16,256	\$ 285	\$ (3,062)	\$ (3,365)	\$ (19)	\$ 137	\$ 10,232

## Accrued Utility Revenue

<u>\$ Thousands</u>	<u>Gas</u>	<u>Steam</u>	<u>Chilled Water</u>	<u>Water</u>	<u>Wastewater</u>	<u>Resources</u>	<u>Total</u>
Balance at December 31, 2020	\$ 15,518	\$ -	\$ -	\$ 7,310	\$ 11,446	\$ 618	\$ 34,892
Balance at September 30, 2020	2,071	-	-	9,662	11,783	718	24,234
Increase (Decrease)	<u>\$ 13,447</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,352)</u>	<u>\$ (337)</u>	<u>\$ (100)</u>	<u>\$ 10,658</u>
Balance at December 31, 2019	\$ 10,531	\$ -	\$ -	\$ 6,438	\$ 11,739	\$ 366	\$ 29,074
Balance at September 30, 2019	2,518	-	-	7,957	11,508	442	22,425
Increase (Decrease)	<u>\$ 8,013</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,519)</u>	<u>\$ 231</u>	<u>\$ (76)</u>	<u>\$ 6,649</u>

Accounts receivable and unbilled revenues can vary significantly from period to period as a result of weather, customer usage patterns, customer mix, commodity costs, changes in tariff rates, timing of customer collections, timing of rendering customer bills, and meter reading schedules.

## 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 to ultimately provide enhanced benefits to Citizens' beneficiaries. Resources 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); 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.

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 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.

Operating revenues and operating expenses are set forth in the Condensed Combined Statements of Operations. Operating income represents operating revenues less operating expenses directly attributable to the segments and an allocation of certain operating expenses benefiting each.

Segment statements of financial position at December 31, 2020 and September 30, 2020, statements of operations for the three months ended December 31, 2020 and 2019, and statements of cash flows for the three months ended December 31, 2020 and 2019 are summarized as follows:

**Segment Footnote - Condensed Combined Statement of Financial Position***Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**At December 31, 2020*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
<b>Assets</b>									
Property, plant, and equipment	\$ 347,396	\$ 75,748	\$ 65,666	\$ 1,204,221	\$ 2,183,222	\$ 233,320	\$ 24,670	\$ -	\$ 4,134,243
Intangibles	-	13,956	39,310	-	-	-	-	-	53,266
Investments	12,590	6,515	1,813	64,353	222,826	4,507	273	-	312,877
Cash and cash equivalents	35,072	3,452	20,985	46,780	98,564	23,876	15,192	-	243,921
Other current assets	75,692	15,400	9,774	35,295	46,774	4,130	632	(10,010)	177,687
Deferred charges and other non-current assets	3,907	1,418	11	16,544	3,909	761	1,303	-	27,853
Total assets	\$ 474,657	\$ 116,489	\$ 137,559	\$ 1,367,193	\$ 2,555,295	\$ 266,594	\$ 42,070	\$ (10,010)	\$ 4,949,847
<b>Capitalization and Liabilities</b>									
Equity	\$ 185,645	\$ 22,417	\$ 100,283	\$ 180,435	\$ 161,317	\$ 119,386	\$ (76,080)	\$ -	\$ 693,403
Long-term debt	165,360	60,160	25,691	896,247	2,143,975	53,839	-	-	3,345,272
Retirement benefit and Other long-term liabilities	49,149	15,810	2,911	219,919	104,232	86,419	106,393	-	584,833
Current mat. of long-term debt	15,440	6,213	5,167	26,365	48,018	-	-	-	101,203
Short-term borrowings	-	-	-	-	-	1,500	-	-	1,500
Current liabilities	59,063	11,889	3,507	44,227	97,753	5,450	11,757	(10,010)	223,636
Total capitalization and liabilities	\$ 474,657	\$ 116,489	\$ 137,559	\$ 1,367,193	\$ 2,555,295	\$ 266,594	\$ 42,070	\$ (10,010)	\$ 4,949,847

**Segment Footnote - Condensed Combined Statement of Financial Position***Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**At September 30, 2020*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
<b>Assets</b>									
Property, plant, and equipment	\$ 344,317	\$ 75,817	\$ 65,566	\$ 1,194,169	\$ 2,154,925	\$ 225,858	\$ 25,690	\$ -	\$ 4,086,342
Intangibles	-	14,202	39,990	-	-	-	-	-	54,192
Investments	7,292	11,779	5,988	73,656	224,619	4,973	273	-	328,580
Cash and cash equivalents	46,316	2,641	23,662	53,634	108,750	21,364	18,554	-	274,921
Other current assets	50,808	12,041	8,862	39,170	49,377	5,474	6,609	(15,274)	157,067
Deferred charges and other non-current assets	4,554	1,712	61	17,760	4,401	801	3,105	-	32,394
Total assets	\$ 453,287	\$ 118,192	\$ 144,129	\$ 1,378,389	\$ 2,542,072	\$ 258,470	\$ 54,231	\$ (15,274)	\$ 4,933,496
<b>Capitalization and Liabilities</b>									
Equity	\$ 165,478	\$ 20,543	\$ 100,673	\$ 168,552	\$ 144,016	\$ 116,517	\$ (77,234)	\$ -	\$ 638,545
Long-term debt	166,222	66,619	31,043	906,186	2,115,839	53,838	-	-	3,339,747
Retirement benefit and Other long-term liabilities	50,684	16,188	2,927	213,348	103,439	79,646	108,854	-	575,086
Current mat. of long-term debt	15,440	6,074	4,986	28,245	45,283	-	-	-	100,028
Short-term borrowings	-	-	-	-	-	1,000	-	-	1,000
Current liabilities	55,463	8,768	4,500	62,058	133,495	7,469	22,611	(15,274)	279,090
Total capitalization and liabilities	\$ 453,287	\$ 118,192	\$ 144,129	\$ 1,378,389	\$ 2,542,072	\$ 258,470	\$ 54,231	\$ (15,274)	\$ 4,933,496

**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, 2020*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 72,645	\$ 16,800	\$ 5,584	\$ 48,845	\$ 74,502	\$ 9,012	\$ -	\$ -	\$ 227,388
Intercompany revenues	361	284	-	156	290	128	-	(1,219)	-
Gross operating revenues	73,006	17,084	5,584	49,001	74,792	9,140	-	(1,219)	227,388
Operating expenses:									
Cost of goods sold	28,495	8,746	1,685	-	-	505	-	(891)	38,540
Operations and maintenance	16,002	4,276	2,344	19,018	19,475	3,381	9	(316)	64,189
Depreciation and amortization	4,707	1,334	1,356	6,717	14,715	1,289	-	-	30,118
Taxes	2,739	426	454	4,004	7,213	616	-	-	15,452
Total operating expenses	51,943	14,782	5,839	29,739	41,403	5,791	9	(1,207)	148,299
Operating income (loss)	21,063	2,302	(255)	19,262	33,389	3,349	(9)	(12)	79,089
Other income (expense), net:									
Interest income	4	1	4	517	36	-	2	(2)	562
Non-operating post-employment benefits, net	(60)	(24)	(5)	218	3	2	-	-	134
Other	(300)	-	-	97	1	58	(248)	-	(392)
Total other income (expense), net	(356)	(23)	(1)	832	40	60	(246)	(2)	304
Income (loss) before equity in earnings of affiliates and interest charges	20,707	2,279	(256)	20,094	33,429	3,409	(255)	(14)	79,393
Equity in earnings of affiliates	-	-	-	-	-	-	-	-	-
Interest charges:									
Interest on long-term debt	2,122	761	357	10,158	23,596	531	2	(2)	37,525
Other interest, including net (premium) discount amortization	(648)	(141)	(185)	(1,506)	(7,398)	10	-	-	(9,868)
Total interest charges	1,474	620	172	8,652	16,198	541	2	(2)	27,657
Income (loss) from continuing operations	19,233	1,659	(428)	11,442	17,231	2,868	(257)	(12)	51,736
Loss from discontinued operations	-	-	-	-	-	-	(137)	12	(125)
Net income (loss)	\$ 19,233	\$ 1,659	\$ (428)	\$ 11,442	\$ 17,231	\$ 2,868	\$ (394)	\$ -	\$ 51,611



**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, 2019*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 70,469	\$ 16,502	\$ 5,660	\$ 49,100	\$ 75,305	\$ 8,385	\$ -	\$ -	\$ 225,421
Intercompany revenues	456	920	-	351	295	168	-	(2,190)	-
Gross operating revenues	70,925	17,422	5,660	49,451	75,600	8,553	-	(2,190)	225,421
Operating expenses:									
Cost of goods sold	29,183	8,478	1,936	-	-	501	-	(1,600)	38,498
Operations and maintenance	16,508	4,679	1,873	18,909	19,591	3,255	-	(585)	64,230
Depreciation and amortization	4,304	1,297	1,317	6,551	14,476	1,156	-	-	29,101
Taxes	2,416	378	420	3,856	6,988	642	-	-	14,700
Total operating expenses	52,411	14,832	5,546	29,316	41,055	5,554	-	(2,185)	146,529
Operating income (loss)	18,514	2,590	114	20,135	34,545	2,999	-	(5)	78,892
Other income (expense), net:									
Interest income	116	33	55	822	739	16	95	(86)	1,790
Non-operating post-employment benefits, net	(344)	(70)	(14)	12	(61)	(10)	-	-	(487)
Other	(275)	-	-	114	75	70	(290)	-	(306)
Total other income (expense), net	(503)	(37)	41	948	753	76	(195)	(86)	997
Income (loss) before equity in losses of affiliates and interest charges	18,011	2,553	155	21,083	35,298	3,075	(195)	(91)	79,889
Equity in losses of affiliates	-	-	-	-	-	(135)	-	-	(135)
Interest charges:									
Interest on long-term debt	2,412	836	419	10,474	22,746	564	86	(86)	37,451
Other interest, including net discount (premium) amortization	(65)	(164)	(210)	(1,293)	(5,281)	4	-	-	(7,009)
Total interest charges	2,347	672	209	9,181	17,465	568	86	(86)	30,442
Income (loss) from continuing operations	15,664	1,881	(54)	11,902	17,833	2,372	(281)	(5)	49,312
Loss from discontinued operations	-	-	-	-	-	-	(207)	5	(202)
Net income (loss)	\$ 15,664	\$ 1,881	\$ (54)	\$ 11,902	\$ 17,833	\$ 2,372	\$ (488)	\$ -	\$ 49,110

**Segment Footnote - Condensed Combined Statement of Cash Flows***Citizens Energy Group and Subsidiary and CWA Authority, Inc.**For the Three Months Ended December 31, 2020 (In Thousands)*

	Gas	Steam	Chilled Water	Water	Waste-water	Resources	Other	Total
Net cash provided by (used in) operating activities	1,353	2,798	(816)	2,574	5,333	4,738	(1,502)	\$ 14,478
Investing Activities:								
Construction expenditures	(7,473)	(1,177)	(1,050)	(12,391)	(51,067)	(2,500)	(1,860)	(77,518)
Other investing activities	382	(168)	-	(148)	-	(17)	-	49
Net cash used in investing activities	(7,091)	(1,345)	(1,050)	(12,539)	(51,067)	(2,517)	(1,860)	(77,469)
Financing Activities:								
Proceeds from bank line of credit	-	2,000	-	-	-	500	-	2,500
Repayment of short-term borrowings and bank line of credit	-	(2,000)	-	-	-	-	-	(2,000)
Principal payments of long-term debt and bond refunding	-	(6,074)	(4,986)	(10,280)	(37,425)	-	-	(58,765)
Proceeds from issuance of long-term debt and bond refunding	-	-	-	-	70,475	-	-	70,475
Bond issuance costs	-	-	-	-	(293)	-	-	(293)
Contributions in aid of construction	-	-	-	3,485	1,051	(692)	-	3,844
Other financing activities	174	-	-	-	-	-	-	174
Net cash provided by (used in) financing activities	174	(6,074)	(4,986)	(6,795)	33,808	(192)	-	15,935
Net change in cash, cash equivalents, and restricted cash	(5,564)	(4,621)	(6,852)	(16,760)	(11,926)	2,029	(3,362)	(47,056)
Cash, cash equivalents & restricted cash - beginning of period	52,777	14,428	29,650	99,364	331,632	22,333	18,554	568,738
Cash, cash equivalents & restricted cash - end of period	\$ 47,213	\$ 9,807	\$ 22,798	\$ 82,604	\$ 319,706	\$ 24,362	\$ 15,192	\$ 521,682
Reconciliation:								
Cash and cash equivalents	\$ 35,072	\$ 3,452	\$ 20,985	\$ 46,780	\$ 98,564	\$ 23,876	\$ 15,192	\$ 243,921
Restricted cash included in Bond restricted funds	12,141	6,355	1,813	33,724	218,965	486	-	273,484
Restricted cash included in Investments, Other	-	-	-	2,100	2,177	-	-	4,277
Cash, cash equivalents & restricted cash - end of period	\$ 47,213	\$ 9,807	\$ 22,798	\$ 82,604	\$ 319,706	\$ 24,362	\$ 15,192	\$ 521,682

**Segment Footnote - Condensed Combined Statement of Cash Flows***Citizens Energy Group and Subsidiary and CWA Authority, Inc.**For the Three Months Ended December 31, 2019 (In Thousands)*

	Gas	Steam	Chilled Water	Water	Waste-water	Resources	Other	Total
Net cash provided by (used in) operating activities	\$ (1,302)	\$ 1,508	\$ 2,652	\$ 7,145	\$ 7,970	\$ 2,241	\$ (7,272)	\$ 12,942
Investing Activities:								
Construction expenditures	(8,801)	(911)	(1,439)	(19,100)	(61,656)	(3,369)	(5,287)	(100,563)
Other investing activities	(99)	(1)	-	(99)	(2)	(87)	(34)	(322)
Net cash used in investing activities	(8,900)	(912)	(1,439)	(19,199)	(61,658)	(3,456)	(5,321)	(100,885)
Financing Activities:								
Repayment of short-term borrowings and bank line of credit	-	-	-	-	(80,000)	-	-	(80,000)
Principal payments of long-term debt and bond refunding	-	(5,792)	(4,748)	(9,535)	(35,085)	-	-	(55,160)
Proceeds from issuance of long-term debt and bond refunding	-	-	-	-	231,219	-	-	231,219
Bond issuance costs	-	-	-	-	(454)	-	-	(454)
Contributions in aid of construction	-	-	-	6,840	876	332	-	8,048
Other financing activities	147	-	-	-	-	-	-	147
Net cash provided by (used in) financing activities	147	(5,792)	(4,748)	(2,695)	116,556	332	-	103,800
Net change in cash, cash equivalents, and restricted cash	(10,055)	(5,196)	(3,535)	(14,749)	62,868	(883)	(12,593)	15,857
Cash, cash equivalents & restricted cash - beginning of period	39,073	16,606	31,068	120,664	231,971	22,534	15,923	477,839
Cash, cash equivalents & restricted cash - end of period	\$ 29,018	\$ 11,410	\$ 27,533	\$ 105,915	\$ 294,839	\$ 21,651	\$ 3,330	\$ 493,696
Reconciliation:								
Cash and cash equivalents	\$ 16,263	\$ 5,051	\$ 25,716	\$ 66,910	\$ 52,601	\$ 21,167	\$ 3,330	\$ 191,038
Restricted cash included in Bond restricted funds	12,755	6,359	1,817	36,751	240,065	484	-	298,231
Restricted cash included in Investments, Other	-	-	-	2,254	2,173	-	-	4,427
Cash, cash equivalents & restricted cash - end of period	\$ 29,018	\$ 11,410	\$ 27,533	\$ 105,915	\$ 294,839	\$ 21,651	\$ 3,330	\$ 493,696

## 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 Consolidated Statement of Financial Position

Citizens Westfield Utilities, LLC

(In Thousands)

At December 31, 2020

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
<b>Assets</b>						
Property, plant, and equipment	\$ -	\$ 12,783	\$ 98,647	\$ 115,804	\$ -	\$ 227,234
Investments	109,665	-	-	-	(109,665)	-
Cash and cash equivalents	114	700	714	12,343	-	13,871
Other current assets	253	1,264	1,378	1,739	-	4,634
Other non-current assets	-	570	201	475	-	1,246
Total assets	\$ 110,032	\$ 15,317	\$ 100,940	\$ 130,361	\$ (109,665)	\$ 246,985
<b>Capitalization and Liabilities</b>						
Member's equity	\$ 100,847	\$ 13,016	\$ 36,359	\$ 60,289	\$ (109,665)	\$ 100,846
Long-term debt	8,881	-	19,925	25,034	-	53,840
Other long-term borrowings	-	-	1,000	-	-	1,000
Other long-term liabilities	-	1	41,278	43,289	-	84,568
Current maturities of long-term debt	-	-	-	-	-	-
Short-term borrowings	-	1,500	-	-	-	1,500
Current liabilities	304	800	2,378	1,749	-	5,231
Total capitalization and liabilities	\$ 110,032	\$ 15,317	\$ 100,940	\$ 130,361	\$ (109,665)	\$ 246,985

### Condensed Consolidated Statement of Financial Position

Citizens Westfield Utilities, LLC

(In Thousands)

At September 30, 2020

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
<b>Assets</b>						
Property, plant, and equipment	\$ -	\$ 12,387	\$ 94,512	\$ 112,929	\$ -	\$ 219,828
Investments	107,487	-	-	-	(107,487)	-
Cash and cash equivalents	311	843	674	10,904	-	12,732
Other current assets	-	706	2,268	1,854	-	4,828
Other non-current assets	-	598	401	771	-	1,770
Total assets	\$ 107,798	\$ 14,534	\$ 97,855	\$ 126,458	\$ (107,487)	\$ 239,158
<b>Capitalization and Liabilities</b>						
Member's equity	\$ 98,676	\$ 12,680	\$ 35,752	\$ 59,054	\$ (107,487)	\$ 98,675
Long-term debt	8,870	-	19,924	25,045	-	53,839
Other long-term borrowings	-	-	1,000	-	-	1,000
Other long-term liabilities	-	-	38,037	39,753	-	77,790
Current maturities of long-term debt	-	-	-	-	-	-
Short-term borrowings	-	1,000	-	-	-	1,000
Current liabilities	252	854	3,142	2,606	-	6,854
Total capitalization and liabilities	\$ 107,798	\$ 14,534	\$ 97,855	\$ 126,458	\$ (107,487)	\$ 239,158

**Condensed Consolidated Statement of Operations**  
**Citizens Westfield Utilities, LLC**  
**For the Three Months Ended December 31, 2020**  
**(In Thousands)**

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	\$ -	\$ 1,456	\$ 2,479	\$ 3,493	\$ -	\$ 7,428
Operating expenses						
Cost of goods sold	-	505	-	-	-	505
Other operating expenses	9	375	991	1,046	-	2,421
Depreciation and amortization	-	178	401	674	-	1,253
Taxes	-	57	305	235	-	597
Total operating expenses	9	1,115	1,697	1,955	-	4,776
Total operating (loss) income	(9)	341	782	1,538	-	2,652
Other income	-	1	59	1	-	61
Equity in earnings of subsidiaries	2,238	-	-	-	(2,238)	-
Interest charges						
Interest on long-term debt	47	-	200	284	-	531
Other interest	11	6	4	(10)	-	11
Total interest charges	58	6	204	274	-	542
Net income (loss)	\$ 2,171	\$ 336	\$ 637	\$ 1,265	\$ (2,238)	\$ 2,171

**Condensed Consolidated Statement of Operations**  
**Citizens Westfield Utilities, LLC**  
**For the Three Months Ended December 31, 2019**  
**(In Thousands)**

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	\$ -	\$ 1,369	\$ 2,239	\$ 3,173	\$ -	\$ 6,781
Operating expenses						
Cost of goods sold	-	501	-	-	-	501
Other operating expenses	8	329	931	1,004	-	2,272
Depreciation and amortization	-	159	324	635	-	1,118
Taxes	-	55	322	245	-	622
Total operating expenses	8	1,044	1,577	1,884	-	4,513
Total operating (loss) income	(8)	325	662	1,289	-	2,268
Other (expense) income	-	(2)	60	6	-	64
Equity in earnings of subsidiaries	1,859	-	-	-	(1,859)	-
Interest charges						
Interest on long-term debt	81	-	200	283	-	564
Other interest	6	8	1	(11)	-	4
Total interest charges	87	8	201	272	-	568
Net income (loss)	\$ 1,764	\$ 315	\$ 521	\$ 1,023	\$ (1,859)	\$ 1,764

**Condensed Consolidated Statement of Cash Flows**

Citizens Westfield Utilities, LLC

(In Thousands)

For the Three Months Ended December 31, 2020

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Total
Net cash provided by (used in) operating activities	\$ (257)	\$ 5	\$ 1,521	\$ 2,006	\$ 3,275
Investing Activities:					
Construction expenditures	-	(632)	(1,103)	(677)	(2,412)
Other investing activities	-	(16)	-	-	(16)
Net cash used in investing activities	-	(648)	(1,103)	(677)	(2,428)
Financing Activities:					
Proceeds from bank line of credit	-	500	-	-	500
Bond issuance costs	-	-	-	-	-
Additional paid-in capital and dividends	60	-	(30)	(30)	-
Contributions in aid of construction and customer advances, net	-	-	(548)	(143)	(691)
Net cash provided by (used in) financing activities	60	500	(578)	(173)	(191)
Net change in cash, cash equivalents, and restricted cash	(197)	(143)	(160)	1,156	656
Cash, cash equivalents & restricted cash - beginning of period	311	843	1,075	11,472	13,701
Cash, cash equivalents & restricted cash - end of period	\$ 114	\$ 700	\$ 915	\$ 12,628	\$ 14,357
Reconciliation:					
Cash and cash equivalents	\$ 114	\$ 700	\$ 714	\$ 12,343	\$ 13,871
Restricted cash included in Other non-current assets	-	-	201	285	486
Cash, cash equivalents & restricted cash - end of period	\$ 114	\$ 700	\$ 915	\$ 12,628	\$ 14,357

**Condensed Consolidated Statement of Cash Flows**

Citizens Westfield Utilities, LLC

(In Thousands)

For the Three Months Ended December 31, 2019

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Total
Net cash provided by (used in) operating activities	\$ (110)	\$ 78	\$ 574	\$ 1,079	\$ 1,621
Investing Activities:					
Construction expenditures	-	(486)	(1,341)	(1,541)	(3,368)
Other investing activities	-	-	-	8	8
Net cash used in investing activities	-	(486)	(1,341)	(1,533)	(3,360)
Financing Activities:					
Additional paid-in capital and dividends	100	-	(50)	(50)	-
Contributions in aid of construction	-	-	(55)	388	333
Net cash provided by (used in) financing activities	100	-	(105)	338	333
Net change in cash, cash equivalents, and restricted cash	(10)	(408)	(872)	(116)	(1,406)
Cash, cash equivalents & restricted cash - beginning of period	171	1,136	6,001	9,008	16,316
Cash, cash equivalents & restricted cash - end of period	\$ 161	\$ 728	\$ 5,129	\$ 8,892	\$ 14,910
Reconciliation:					
Cash and cash equivalents	\$ 161	\$ 728	\$ 4,929	\$ 8,608	\$ 14,426
Restricted cash included in Other non-current assets	-	-	200	284	484
Cash, cash equivalents & restricted cash - end of period	\$ 161	\$ 728	\$ 5,129	\$ 8,892	\$ 14,910

## 8. LEASES

The Company has operating leases for certain Thermal Steam property, plant, and equipment. The Company does not have any finance leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet but are expensed on a straight-line basis over the lease term. The Company's leases do not contain any material residual value guarantees, restrictive covenants or subleases. There were no lease transactions with related parties for the three months ended December 31, 2020 and 2019.

Right-of-use assets represent the Company's right to use an underlying asset for the lease term while lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and lease liabilities are recognized on commencement of the lease based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses the respective business unit's incremental borrowing rate, on a collateralized basis over a similar term, based on the information available at commencement date in determining the present value of lease payments. The lease term includes the option to extend or terminate the lease if it is reasonably certain that the option will be exercised. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. Variable payments, which are immaterial, are excluded from right-of-use assets and lease liabilities are recognized as incurred.

The following table summarizes the amounts recognized on the Condensed Combined Statements of Financial Position related to lease asset and liability balances as of the period indicated (in thousands):

	Combined Statement of Financial Position Classification	At December 31, 2020	At September 30, 2020
<b>Assets</b>			
Right-of-use assets - operating leases	Property, plant, and equipment, net	\$ 3,546	\$ 3,607
<b>Liabilities</b>			
Operating lease liabilities - current	Other current liabilities	\$ 287	\$ 249
Operating lease liabilities - non-current	Other long-term liabilities	\$ 3,294	\$ 3,358

The following table presents the components of lease expense recognized in operations and maintenance expense (in thousands):

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019
Operating lease expense	\$ 105	\$ 105
Short-term lease expense	156	45
Variable lease expense	30	40
Total lease expense	<u>\$ 291</u>	<u>\$ 190</u>

The following table presents operating lease maturities and a reconciliation of the undiscounted cash flows to operating lease liabilities (in thousands) on a fiscal-year basis:

	At December 31, 2020
2021	\$ 315
2022	420
2023	420
2024	420
2025	420
Thereafter	2,590
Total operating lease payments	<u>4,585</u>
Less: imputed interest	<u>1,039</u>
Total operating lease liabilities	<u>\$ 3,546</u>

The following table contains additional information related to leases (in thousands):

	At December 31, 2020
Weighted-average remaining lease term	131
Weighted-average discount rate	4.9%
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ -

Operating cash outflows from operating leases included in the measurement of lease liabilities were \$105 thousand for each of the three months ended December 31, 2020 and 2019, respectively.

## 9. 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 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 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, 2020 for the asset retirement obligation liability is as follows (in thousands):

Asset retirement obligation at September 30, 2020	\$	13,474
Accretion expense		138
Remediation liabilities settled		(174)
Asset retirement obligation at December 31, 2020	\$	<u>13,438</u>

The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) at December 31, 2020 and September 30, 2019, are as follows (in thousands):

	December 31, 2020	September 30, 2020
Current assets	\$ 615	\$ 1,076
Deferred charges and other non-current assets	1	-
Total assets	<u>\$ 616</u>	<u>\$ 1,076</u>
Equity (deficiency)	\$ (22,453)	\$ (22,503)
Retirement benefit and other long-term liabilities	22,945	23,339
Current liabilities	124	240
Total capitalization and liabilities	<u>\$ 616</u>	<u>\$ 1,076</u>

For the three months ended December 31, 2020 and 2019, Discontinued Operations operating expenses were \$0.1 million and \$0.2 million, respectively. Approximately \$2.0 million of cash was provided by Gas to Discontinued Operations during fiscal year 2020 to settle a portion of the liabilities. Additional cash funding from Gas to settle liabilities may be provided to Discontinued Operations in future years.

## 10. RATE AND REGULATORY MATTERS

### A. Regulatory Developments

#### Gas

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

#### Citizens Thermal Steam

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



Water

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

Wastewater

Prior to the 2019 Wastewater Order described below, 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.

In accordance with the rate case settlement discussed below, on September 27, 2019, CWA filed a final reconciliation of unreconciled SIA revenues collected as a result of SIA 1 and SIA 2 during the applicable 12-month period of August 2018 - July 2019. On November 22, 2019, CWA received approval from the IURC regarding its final reconciliation of SIA 1 and SIA 2 which resulted in a credit to customers of \$0.4 million.

On October 12, 2018, CWA filed a petition with the IURC requesting, among other things, a three-step increase in base rate revenues. On April 12, 2019, CWA, the OUCC and all other parties to the case filed a settlement agreement with the Commission reflecting a three-step increase in base rate revenues of \$31.9 million or 11.9% for the first step, \$13.9 million or 4.6% for the second step, and \$12.0 million or 3.8% for the third step. Included among the various components of the revenue requirements was debt service on CWA bonds expected to be issued in 2019 (step 1), 2020 (step 2) and 2021 (step 3). In the rate case settlement agreement, CWA agreed voluntarily not to seek recovery of SIA 2 revenues uncollected as of the issuance of the final order in the rate case. Accordingly, CWA expensed \$4.0 million of regulatory assets related to SIA 2 revenues which were previously recorded within "Other current assets" as they were no longer probable of recovery. On July 29, 2019, the IURC issued an Order (the 2019 Wastewater Order) essentially approving the settlement agreement. The step one increase took effect on August 1, 2019 and was reduced by \$1.4 million effective November 22, 2019, since the actual debt service on the CWA bonds issued in 2019 was less than the amount assumed in the 2019 Wastewater Order. The step two increase took effect on September 28, 2020, and was reduced by \$1.4 million effective October 23, 2020, since the actual debt service on the CWA bonds issued in 2020 was less than the amount assumed in the 2019 Wastewater Order. The step three increase will be implemented upon confirmation of pricing for the CWA 2021 bond issuance contemplated in the rate case. The step three increase is also subject to a true-up to the extent actual debt service on the contemplated 2021 bond issuance is materially different than the amount assumed in the 2019 Wastewater Order.

Resources - Westfield Gas

Westfield Gas's most recent general rate case order was issued by the IURC in April 2017. On November 27, 2019, the IURC issued an order approving the continuation of Westfield Gas's energy efficiency programs and decoupling mechanism. On July 31, 2020, Westfield Gas filed a petition seeking approval of a three-year extension of an existing line of credit up to an aggregate principal amount of \$4.0 million. On January 27, 2021, the IURC issued an order approving the petition.

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.

COVID-19

On May 27, 2020, the IURC issued an order in Cause No. 45380 notifying all jurisdictional Indiana utilities of its decision to conduct a two-phase investigation to consider and address the impacts of the COVID-19 pandemic and the Indiana

Governor's executive orders related to the pandemic on the rates and provision of utility service by all jurisdictional utilities and their ratepayers.

On June 29, 2020, the IURC issued its phase 1 order in Cause No. 45380. In that order, the IURC imposed a disconnect moratorium prohibiting disconnections by all jurisdictional utilities until after August 14 at the earliest. During the same time period, the phase 1 order prohibits jurisdictional utilities from imposing late fees, convenience fees, deposits and reconnection fees. The IURC also encouraged utilities to make efforts to maintain service for customers, including through the use of flexible payment arrangements. The phase 1 order also grants all jurisdictional utilities authority to use regulatory accounting for impacts directly associated with the disconnect moratorium, waiver of certain fees, the use of expanded payment arrangements and COVID related uncollectible and incremental bad debt expense. The phase 1 order does not preclude utilities from requesting authority to defer other increased O&M expenses due to COVID in phase 2 or a separate proceeding.

On August 12, 2020, the IURC issued an order (1) directing that the disconnect moratorium prohibiting disconnections would not be extended beyond August 14; and (2) extending the prohibition on collection of late fees, deposits, and disconnection/reconnection fees for an additional 60 days until October 12, 2020. On October 7, 2020, the OUCC filed a motion requesting, among other things, the IURC extend the prohibition on collection of late fees, deposits, and disconnection/reconnection fees through December 31, 2020. On October 27, 2020, the IURC denied the OUCC's motion. Accordingly, the prohibition on the collection of late fees, deposits, and disconnection/reconnection fees has now expired. At this time, Management cannot predict the outcome of further action that may be taken by the IURC, including the reinstatement of a disconnection moratorium or other customer protections, or the impact such actions may have on the regulated businesses of Citizens and CWA.

## **11. 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 9 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 year 2016, Citizens recorded a \$9.4 million liability for estimated remediation and restoration costs at the Langsdale Facility. These costs were expected to be incurred over a ten-year period. Citizens filed the RWP with IDEM in November 2016. In response to comments received from IDEM in fiscal year 2019 and the filing of a revised RWP in November 2019, Citizens filed a final RWP in April 2020 which received approval from IDEM in August 2020. Pursuant to the approved plan, Citizens revised the remaining liability to remediate the site, recognizing income of approximately \$5.7 million in September 2020 as estimated future costs to complete the remediation plan were less than those accrued at that date. The obligation is included in "Other current liabilities" and "Other long-term liabilities" in the 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 \$0.6 million and \$0.7 million at December 31, 2020 and September 30, 2020, 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 waters 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. In 2020, the EPA and IDEM approved a Use Attainability Analysis (UAA) for the long-term sewer overflow control plan.

Upon acquisition of the Wastewater System in August 2011, CWA 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). CWA 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) and the Eagle Creek Tunnel are the first two segments online of the 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 are 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 are in use. Mining for the White River and Lower Pogue Run tunnels, which comprise approximately 7.4 miles of the DigIndy tunnel system, began in September 2016 and finished in April 2019. Work to prepare the White River and Lower Pogue Run segments to capture raw sewage is ongoing with the tunnels scheduled to be online in 2021. Tunnel boring to mine the 3.4-mile Fall Creek Tunnel has been completed. Mining will begin on the tunnel system's final segment, the 7.6-mile Pleasant Run Tunnel, in early 2021 following refurbishment of the tunnel boring machine. CWA 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.

**12. SUBSEQUENT EVENTS**

Management has considered the impact of subsequent events through February 17, 2021, the date at which these condensed combined financial statements were issued.