

Quarterly Financial Report

Q1 - 2022

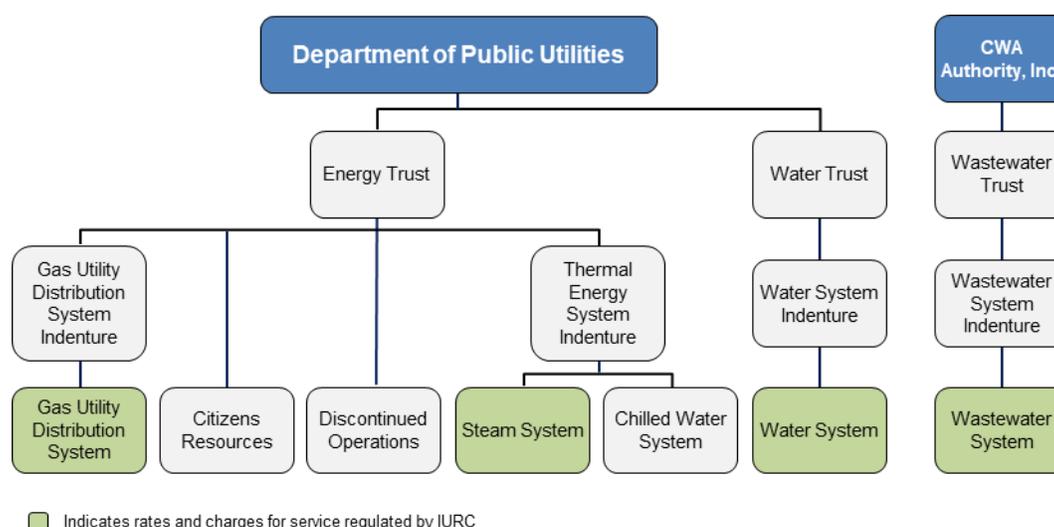
MANAGEMENT DISCUSSION AND ANALYSIS

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 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.

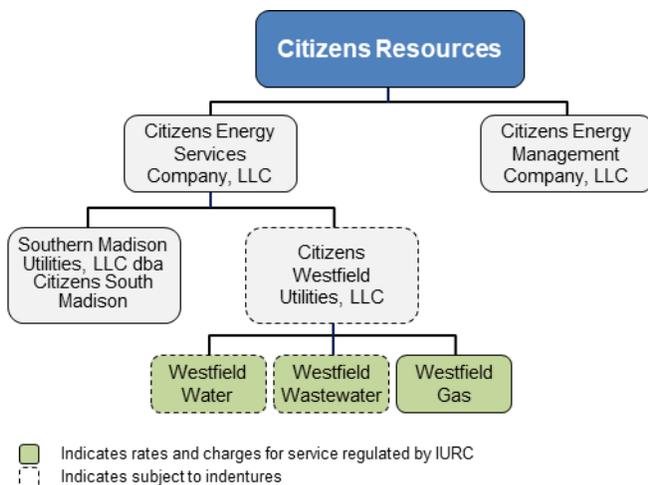
The Wastewater System is owned by CWA, a separate nonprofit corporation, which through an interlocal agreement entered into by and among Citizens, the City of Indianapolis, and the Sanitary District of the City (the “District”), acting by and through its Board of Public Works, pursuant to Indiana Code 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.¹ 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.² 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.



¹ 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.

² Since Citizens includes the results of operations of Citizens Resources and its subsidiaries and affiliates in its condensed combined financial statements, an accounting loss within Citizens Resources will be reflected in Citizens' condensed 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, 2021, and 2020. Because of the seasonal nature of the various business units, results of operations for the period ended December 31, 2021, 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 which 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		
	2021	2020	Change
Shared Services Expenses	\$ 25.9	\$ 26.3	\$ (0.4)

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

Three Months Ended December 31, 2021 as Compared with 2020

The decrease in Shared services expenses of \$0.4 million was primarily the result of decreased pension and post-employment benefit costs.

GAS

	Three Months Ended Dec 31		
	2021	2020	Change
Operating revenues	\$ 74.8	\$ 73.0	\$ 1.8
Cost of goods sold	32.2	28.5	3.7
Margin	42.6	44.5	(1.9)
Other operating expenses	25.2	23.4	1.8
Operating income (loss)	17.4	21.1	(3.7)
Other income (expense), net	0.4	(0.4)	0.8
Interest charges	1.3	1.5	(0.2)
Segment income (loss)	\$ 16.5	\$ 19.2	\$ (2.7)

Volume sales, million Dth			
Retail	8.3	9.3	(1.0)
Transportation	4.9	5.1	(0.2)
Power generation and other	11.7	3.8	7.9
Cost of gas sold, per Dth	\$ 3.75	\$ 3.08	\$ 0.67
Heating degree days	1,612	1,767	(155)

Three Months Ended December 31, 2021 as Compared with 2020

The decrease in earnings of \$2.7 million was primarily the result of:

- \$3.5 million lower margin related to retail sales; and
- \$1.8 million increased operating expenses, mostly due to higher contract services costs; partially **offset by**
- \$1.6 million increased margin largely related to power generation sales; and
- \$0.8 million increased other income mostly due to reduced costs for non-service cost components of pension and other post-employment benefit costs.

STEAM

	Three Months Ended Dec 31		
	2021	2020	Change
Operating revenues	\$ 18.6	\$ 17.1	\$ 1.5
Cost of goods sold	10.4	8.7	1.7
Margin	8.2	8.4	(0.2)
Other operating expenses	6.6	6.1	0.5
Operating income (loss)	1.6	2.3	(0.7)
Other income (expense), net	0.1	-	0.1
Interest charges	0.6	0.6	-
Segment income (loss)	\$ 1.1	\$ 1.7	\$ (0.6)
Volume sales, million therms	13.9	14.1	(0.2)
Heating degree days	1,612	1,767	(155)

Three Months Ended December 31, 2021 as Compared with 2020

The decrease in earnings of \$0.6 million was largely due to increased distribution and plant maintenance expenses.

CHILLED WATER

	Three Months Ended Dec 31		
	2021	2020	Change
Operating revenues	\$ 6.6	\$ 5.6	\$ 1.0
Cost of goods sold	2.1	1.7	0.4
Margin	4.5	3.9	0.6
Other operating expenses	4.0	4.1	(0.1)
Operating income (loss)	0.5	(0.2)	0.7
Other income (expense), net	-	-	-
Interest charges	0.1	0.2	(0.1)
Segment income (loss)	\$ 0.4	\$ (0.4)	\$ 0.8
Volume sales, million ton hours	19.9	15.4	4.5
Cooling degree days	63	23	40

Three Months Ended December 31, 2021 as Compared with 2020

The increase in earnings of \$0.8 million was primarily driven by increased margin from higher volumes sold.

WATER

	Three Months Ended Dec 31		
	2021	2020	Change
Operating revenues	\$ 48.7	\$ 49.0	\$ (0.3)
Other operating expenses	31.0	29.7	1.3
Operating income (loss)	17.7	19.3	(1.6)
Other income (expense), net	0.8	0.8	-
Interest charges	8.4	8.7	(0.3)
Segment income (loss)	\$ 10.1	\$ 11.4	\$ (1.3)
Volume sales, billion gallons	8.8	8.8	-
Precipitation, inches	13.2	10.6	2.6

Three Months Ended December 31, 2021 as Compared with 2020

The decrease in earnings of \$1.3 million was primarily the result of:

- \$1.4 million lower revenues from decreased residential consumption; and
- \$1.3 million of increased operating expenses across a variety of categories, none of which were individually significant; partially **offset by**
- \$1.2 million higher revenues from increased commercial and multi-family consumption; and
- \$0.3 million lower interest charges, largely driven by bond refunding and retirement activities that occurred in the second and third quarters of the prior year.

WASTEWATER

	Three Months Ended Dec 31		
	2021	2020	Change
Operating revenues	\$ 80.1	\$ 74.8	\$ 5.3
Other operating expenses	43.2	41.4	1.8
Operating income (loss)	36.9	33.4	3.5
Other income (expense), net	0.3	-	0.3
Interest charges	9.7	16.2	(6.5)
Segment income (loss)	\$ 27.5	\$ 17.2	\$ 10.3
Treatment volume sales, billion gallons	7.4	7.1	0.3
Strength surcharge, million pounds	13.1	13.0	0.1

Three Months Ended December 31, 2021 as Compared with 2020

The increase in earnings of \$10.3 million was primarily the result of:

- \$6.5 million lower interest charges, largely the result of bond refunding activities which occurred in the fourth quarter of the prior year; and
- \$5.3 million of increased revenues, principally due to the effect of a step 3 rate increase implemented on September 29, 2021, combined with higher commercial volume; partially **offset by**
- \$1.0 million increase in various operating expenses, none of which were individually significant; and
- \$0.8 million increased electric power costs.

RESOURCES

	Three Months Ended Dec 31		
	2021	2020	Change
Operating revenues	\$ 10.3	\$ 9.1	\$ 1.2
Cost of goods sold	1.1	0.5	0.6
Margin	9.2	8.6	0.6
Other operating expenses	6.6	5.3	1.3
Operating income (loss)	2.6	3.3	(0.7)
Other income (expense), net	0.1	0.1	-
Equity in earnings (loss) of affiliates	-	-	-
Interest charges	0.5	0.5	-
Segment income (loss)	\$ 2.2	\$ 2.9	\$ (0.7)

Three Months Ended December 31, 2021 as Compared with 2020

The decrease in earnings of \$0.7 million was primarily the result of the following:

- \$1.3 million increased operating expenses, mostly due to higher contract services costs at CEMCO (\$0.7 million) and the Westfield utilities (\$0.6 million); partially **offset by**
- \$0.6 million increased margin, largely from customer growth and increased volume sales in the Westfield utilities.

OTHER

	Three Months Ended Dec 31		
	2021	2020	Change
Operating revenues	\$ -	\$ -	\$ -
Operating expenses	-	-	-
Operating income (loss)	-	-	-
Other income (expense), net	(0.4)	(0.3)	(0.1)
Interest charges	-	-	-
Income (loss) from discontinued operations	-	(0.1)	0.1
Segment income (loss)	\$ (0.4)	\$ (0.4)	\$ -

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. Management will continue to assess liquidity needs and monitor capital markets and other financing sources based on business conditions, including the continuously evolving impacts of the COVID-19 pandemic on the economy, the financial markets, and Citizens' and CWA's operations. 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, 2021, capital expenditures, on an accrual basis, increased by \$1.4 million to \$68.3 million from \$66.9 million during the same period last year. This increase is summarized in the table below (in millions). Certain accrued expenditures, including all capitalized interest, have been included in Other for segment presentation of 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.

Year To Date	Gas	Steam	Chilled		Wastewater	Resources	Other	Total
			Water	Water				
Q1 2022	\$ 3.4	\$ 2.4	\$ 0.7	\$ 12.8	\$ 38.6	\$ 2.9	\$ 7.5	\$ 68.3
Q1 2021	7.0	1.1	0.8	10.6	38.1	2.4	6.9	66.9
	\$ (3.6)	\$ 1.3	\$ (0.1)	\$ 2.2	\$ 0.5	\$ 0.5	\$ 0.6	\$ 1.4

Citizens' and CWA's projected capital spending requirement of \$349.2 million for 2022 is summarized as follows (in millions):

2022 Projection	Gas	Steam	Chilled		Wastewater	Resources	Other	Total
			Water	Water				
	\$ 30.0	\$ 4.6	\$ 3.9	\$ 63.2	\$ 199.1	\$ 20.0	\$ 28.4	\$ 349.2

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 \$25.0 million at December 31, 2021. Gas expects to meet its capital spending requirements in 2022 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, 2021, cash and cash equivalents of Steam and Chilled Water amounted to \$3.9 million and \$22.2 million, respectively. Steam expects to meet its capital spending requirements in 2022 through cash flows from operations and temporary seasonal borrowings while Chilled Water expects to meet its 2022 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 \$43.6 million at December 31, 2021, including \$2.1 million in the construction fund. Water expects to meet its capital spending requirements in 2022 through amounts from the construction fund and cash flows from operations.

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 \$131.8 million including \$73.5 million in the construction fund at December 31, 2021. Wastewater expects to meet its capital spending requirements in 2022 through a combination of cash flows from operations and amounts from the construction fund. 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 2022 includes activities at Citizens South Madison, Westfield Gas, Westfield Water, and Westfield Wastewater. Resources had cash and cash equivalents of \$26.2 million at December 31, 2021. Resources expects to meet its capital spending requirements in 2022 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, 2021	At September 30, 2021
ASSETS		
Property, plant, and equipment, net	\$ 4,382,479	\$ 4,332,120
Intangible assets, net	49,563	50,489
Investments		
Bond restricted funds	241,986	234,183
Other	23,591	28,845
Total investments	265,577	263,028
Current assets		
Cash and cash equivalents	267,965	364,547
Accounts receivable, less allowance for doubtful accounts of \$6,260 and \$6,639, respectively	98,715	79,602
Accrued utility revenue	36,061	26,823
Natural gas in storage	40,599	36,550
Materials and supplies	13,151	12,761
Other current assets	7,285	6,202
Current assets directly related to discontinued operations	1,184	548
Total current assets	464,960	527,033
Deferred charges and other non-current assets	24,571	28,743
TOTAL ASSETS	\$ 5,187,150	\$ 5,201,413
CAPITALIZATION AND LIABILITIES		
Capitalization and non-current liabilities		
Retained earnings	\$ 1,070,427	\$ 1,012,938
Accumulated other comprehensive loss	(91,780)	(92,679)
Long-term debt (excluding current maturities)	3,303,487	3,324,280
Retirement benefits	117,153	122,237
Contributions in aid of construction	382,037	367,716
Other long-term liabilities	60,725	59,490
Non-current liabilities directly related to discontinued operations	17,591	17,919
Total capitalization and non-current liabilities	4,859,640	4,811,901
Current liabilities		
Current maturities of long-term debt	107,210	89,170
Short-term borrowings	3,500	3,500
Accounts payable and accrued expenses	143,430	181,006
Accrued taxes	58,570	70,360
Customer deposits	8,225	9,414
Other current liabilities	6,458	35,846
Current liabilities directly related to discontinued operations	117	216
Total current liabilities	327,510	389,512
Commitments and contingencies (see note 11)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 5,187,150	\$ 5,201,413

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,	
	2021	2020
Operating revenues	\$ 236,182	\$ 227,388
Operating expenses		
Cost of goods sold	43,395	38,540
Operations and maintenance	69,784	64,189
Depreciation and amortization	30,779	30,118
Taxes	15,659	15,452
Total operating expenses	159,617	148,299
Operating income	76,565	79,089
Other income (expense), net		
Interest income	185	562
Non-operating post-employment benefits, net	1,800	134
Other	(377)	(392)
Total other income (expense), net	1,608	304
Income before interest charges	78,173	79,393
Interest charges		
Interest on long-term debt	34,035	37,525
Other interest, including net premium amortization	(13,354)	(9,868)
Total interest charges	20,681	27,657
Income from continuing operations	57,492	51,736
Loss from discontinued operations	(3)	(125)
Net income	\$ 57,489	\$ 51,611
Retirement benefit liability changes:		
Amortization of prior service credit	(411)	(534)
Amortization of loss	1,239	3,326
Total retirement benefit liability changes	828	2,792
Unrealized gain on available-for-sale investments	71	455
Total other comprehensive income	899	3,247
Total comprehensive income	\$ 58,388	\$ 54,858

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,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 57,489	\$ 51,611
Depreciation and amortization	23,895	26,101
Allowance for doubtful accounts	1,111	1,209
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(29,462)	(23,217)
Natural gas in storage	(4,049)	2,164
Accounts payable and accrued expenses	(29,206)	(43,322)
Retirement benefits	(4,257)	(2,109)
Other operating activities	(27,889)	2,092
Change in net liabilities of discontinued operations	(1,064)	(51)
Net cash provided by (used in) operating activities	<u>(13,432)</u>	<u>14,478</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(88,341)	(77,518)
Other investing activities	5,306	49
Net cash used in investing activities	<u>(83,035)</u>	<u>(77,469)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings and bank line of credit	-	2,500
Repayment of short-term borrowings and bank line of credit	-	(2,000)
Principal payments of long-term debt and bond refunding	(47,060)	(58,765)
Proceeds from issuance of long-term debt and bond refunding	52,556	70,475
Bond issuance costs	(371)	(293)
Contributions in aid of construction	2,380	3,844
Other financing activities	163	174
Net cash provided by financing activities	<u>7,668</u>	<u>15,935</u>
Net change in cash, cash equivalents, and restricted cash	(88,799)	(47,056)
Cash, cash equivalents, and restricted cash at beginning of period	590,139	568,738
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 501,340</u>	<u>\$ 521,682</u>
Supplemental Cash Flows Information - Interest paid net of amounts capitalized	<u>\$ 31,335</u>	<u>\$ 53,599</u>
Non-cash Investing Activities		
Construction work-in-progress accrued at end of period	<u>\$ 34,387</u>	<u>\$ 38,828</u>
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	\$ 267,965	\$ 243,921
Restricted cash included in Bond restricted funds	228,974	273,484
Restricted cash included in Investments, Other	4,401	4,277
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 501,340</u>	<u>\$ 521,682</u>

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)

	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance at September 30, 2020	\$ 810,393	\$ (171,848)	\$ 638,545
Comprehensive income			
Net income	51,611	-	51,611
Unrealized gain 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	-	-	-
Balance at December 31, 2020	<u>\$ 862,004</u>	<u>\$ (168,601)</u>	<u>\$ 693,403</u>
Balance at September 30, 2021	\$ 1,012,938	\$ (92,679)	\$ 920,259
Comprehensive income			
Net income	57,489	-	57,489
Unrealized gain on available-for-sale investments	-	71	71
Retirement benefit liability changes	-	828	828
Total comprehensive income	57,489	899	58,388
Customer benefit distributions	-	-	-
Balance at December 31, 2021	<u>\$ 1,070,427</u>	<u>\$ (91,780)</u>	<u>\$ 978,647</u>

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, 2021. Because of the seasonal nature of the various business segments, the results of operations for the period ended December 31, 2021, 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 during fiscal year 2020 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 and around the world.

The full extent of COVID-19's impact on our future operations and financial performance depends on future developments which 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, its impact on the supply chain, 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 11, Commitments and Contingencies for information on COVID-19.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Use of Estimates

The preparation of the condensed combined financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the amounts reported in the condensed 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 condensed combined financial position and results of operations, actual results could differ materially from those estimates.

B. Derivatives and Hedging

In fiscal years 2022 and 2021, 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, call options, contracted interstate pipeline storage, and on-system company-operated storage, Citizens mitigates the risk of price volatility on approximately 80 percent of its anticipated system supply demand. Citizens' Annual Hedging Plan sets guidelines 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, 2021, and September 30, 2021 (in thousands). There were no financial liabilities at December 31, 2021, and September 30, 2021.

Description	December 31, 2021 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	\$ 32,677	\$ -	\$ -
Bond restricted funds	194,149	-	-
Grantor Trust investments	17,605	-	-
Derivative assets	2,401	-	-
Total financial assets measured at fair value	<u>\$ 246,832</u>	<u>\$ -</u>	<u>\$ -</u>
Description	September 30, 2021 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	\$ 32,675	\$ -	\$ -
Bond restricted funds	221,171	-	-
Grantor Trust investments	17,411	-	-
Derivative assets	17,728	-	-
Total financial assets measured at fair value	<u>\$ 288,985</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 \$207.2 and \$234.2 million at December 31, 2021, and September 30, 2021, 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, 2021, and September 30, 2021.

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, 2021
CWA First Lien State Revolving Fund Bonds, Series 2021B	\$ 34,825

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 2022 and 2021 were \$116.9 million and \$133.6 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 and Fuel Cost Adjustment trackers. 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 \$3.5 billion at December 31, 2021, and September 30, 2021, versus the carrying value of \$3.4 billion at December 31, 2021, and September 30, 2021. In the case of Resources debt, the carrying value approximates fair value.

Customers' advances for construction have a carrying value at December 31, 2021, for Water, Wastewater, and Resources of \$15.1 million, \$6.8 million, and \$12.2 million, respectively, versus the carrying values at September 30, 2021, for Water, Wastewater, and Resources of \$14.3 million, \$6.0 million, and \$12.2 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 2031 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 Condensed Combined Statements of Comprehensive Income. Citizens' components of accumulated other comprehensive (loss) income (AOCI) include the impact of pension and other post-employment benefits and mark to market valuation adjustments for available-for-sale investments. The following table presents changes in accumulated other comprehensive (loss) income by component for the three months ended December 31, 2021 (in thousands):

	Pension Plan	Other Postemployment Benefits	Other	Total
Accumulated other comprehensive (loss) income at September 30, 2021	\$ (98,073)	\$ 4,500	\$ 894	\$ (92,679)
Net current-period other comprehensive (loss) income	<u>1,271</u>	<u>(443)</u>	<u>71</u>	<u>899</u>
Accumulated other comprehensive (loss) income at December 31, 2021	<u>\$ (96,802)</u>	<u>\$ 4,057</u>	<u>\$ 965</u>	<u>\$ (91,780)</u>

3. LONG-TERM DEBT

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

	(In Thousands)					
	December 31, 2021			September 30, 2021		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Gas						
Gas Utility Distribution System Series 2013A, Second Lien Revenue Refunding Bonds, 4.125% to 5.250%, due 2027 to 2030	54,465	-	916	54,465	-	944
Gas Utility Distribution System Series 2017A, Second Lien Revenue Refunding Bonds 5.00%, due 2025 to 2027	49,825	-	4,842	49,825	-	5,089
Gas Utility Distribution System Series 2020A, Second Lien Revenue Refunding Bonds 5.00%, due 2022 to 2024	33,125	15,405	3,477	33,125	15,405	4,004
Subtotal Gas	137,415	15,405	9,235	137,415	15,405	10,037
Thermal						
Thermal Energy System Series 2010B, First Lien Revenue Refunding Bonds, 5.00%, due 2021	-	-	-	-	5,500	-
Thermal Energy System Series 2013A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2022 to 2033	5,625	385	24	6,010	370	26
Thermal Energy System Series 2014A, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2022 to 2034	25,190	1,505	1,911	26,695	1,435	1,974
Thermal Energy System Series 2016A, First Lien Revenue Refunding Bonds, 5.00%, due 2022 to 2029	36,185	10,150	3,204	46,335	4,075	3,518
Subtotal Thermal	67,000	12,040	5,139	79,040	11,380	5,518
Water						
Water Utility Series 2011C (ILPIBB 2006A) *, First Lien Net Revenue Bonds, 5.50%, due 2022	-	7,795	(5)	-	7,795	(5)
Water Utility Series 2011D (ILPIBB 2007B) *, First Lien Net Revenue Bonds, 5.25%, due 2022 to 2025	57,195	13,215	(48)	57,195	13,215	(49)
Water Utility Series 2014A, First Lien Net Revenue Bonds, 4.00% to 5.00%, due 2022 to 2044	22,960	605	1,325	23,565	580	1,339
Water Utility Series 2016A, First Lien Revenue Bonds, 5.00%, due 2022 to 2046	61,790	1,320	10,509	63,110	1,270	10,651
Water Utility Series 2016B, First Lien Refunding Revenue Bonds, 4.00% to 5.00%, due 2022 to 2038	196,345	4,345	26,472	200,690	4,265	27,076
Water Utility Series 2018A, First Lien Refunding Revenue Bonds, 3.50% to 5.00%, due 2022 to 2038	352,610	1,865	40,662	354,475	2,285	41,483

	(In Thousands)					
	December 31, 2021			September 30, 2021		
	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 2021A First Lien Revenue Bonds 3.00% to 5.00%, due 2022 to 2051	76,925	1,715	16,561	78,640	200	16,831
Subtotal Water	767,825	30,860	95,476	777,675	29,610	97,326
Wastewater						
CWA Wastewater Utility Series 2012A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2022 to 2042	157,260	4,560	11,513	161,820	4,440	11,763
CWA Wastewater Utility Series 2014A, First Lien Revenue Bonds, 4.25% to 5.00%, due 2022 to 2044	202,755	5,025	15,650	207,780	4,785	15,898
CWA Wastewater Utility Series 2015A, First Lien Revenue Bonds, 3.25% to 5.00%, due 2022 to 2045	138,915	3,260	17,571	142,175	3,105	17,815
CWA Wastewater Utility Series 2016A, First Lien Revenue Bonds 5.00%, due 2022 to 2046	174,020	3,520	31,521	177,540	3,385	31,937
CWA Wastewater Utility Series 2016B, Second Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2022 to 2046	38,390	935	1,635	39,325	900	1,682
CWA Wastewater Series 2016C, First Lien Revenue Bonds (SRF), 2.00%, due 2022 to 2036	9,345	575	(59)	9,345	575	(61)
CWA Wastewater Series 2017A, First Lien Revenue Bonds (SRF), 3.53%, due 2022 to 2047	146,453	3,613	(63)	146,453	3,613	(65)
CWA Wastewater Series 2019A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2022 to 2049	39,560	695	7,728	40,255	665	7,818
CWA Wastewater Series 2019B, First Lien Revenue Bonds (SRF), 2.99%, due 2022 to 2050	172,934	3,917	(68)	172,934	3,917	(69)
CWA Wastewater Series 2020A First Lien Revenue Bonds 3.00% to 5.00% due 2022 to 2050	55,185	990	12,313	56,175	910	12,450
CWA Wastewater Series 2020B First Lien Revenue Bonds (SRF) 2.56%, due 2022 to 2051	68,885	1,590	(71)	68,885	1,590	(66)
CWA Wastewater Series 2021-1 First Lien Revenue Refunding Bonds 3.00% to 5.00%, due 2021 to 2041	440,955	13,955	104,084	454,910	3,375	106,512
CWA Wastewater Series 2021-2 Second Lien Revenue Refunding Bonds 3.00% to 5.00%, due 2022 to 2041	175,885	5,555	44,473	181,440	1,515	45,491
CWA Wastewater Series 2021A First Lien Revenue Bonds 3.00% to 5.00%, due 2022 to 2051	43,795	715	8,490	44,510	-	8,775

	(In Thousands)					
	December 31, 2021			September 30, 2021		
	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 2021B First Lien Revenue Bonds (SRF) 2.83%, due 2023 to 2052	52,556	-	(54)	-	-	-
Subtotal Wastewater	1,916,893	48,905	254,663	1,903,547	32,775	259,880
Resources						
Citizens Westfield Utilities Series 2018A, Refunding Revenue Bonds, 80% of 3-month LIBOR plus 1.90%, due 2023	5,000	-	(77)	9,000	-	(87)
Citizens Westfield Water Series 2019A, Revenue Bonds, 4.00%, due 2048	20,000	-	(72)	20,000	-	(73)
Citizens Westfield Wastewater Series 2019A, Revenue Bonds, 5.00%, due 2048	22,660	-	2,330	22,660	-	2,342
Subtotal Resources	47,660	-	2,181	51,660	-	2,182
Total	\$ 2,936,793	\$ 107,210	\$ 366,694	\$ 2,949,337	\$ 89,170	\$ 374,943

* Indianapolis Local Public Improvement Bond Bank (ILPIBB)

Recent Debt Transaction Activity

On July 6, 2021, CWA issued \$458.3 million of First Lien Refunding Revenue Bonds, Series 2021-1. The Series 2021-1 bonds were issued at a premium of \$110.4 million and have principal maturities between 2021 and 2041 with coupons ranging from 3.00% to 5.00%. The bonds were issued to refund the Series 2011A First Lien Revenue Bonds.

On July 6, 2021, CWA issued \$182.9 million of Second Lien Refunding Revenue Bonds, Series 2021-2. The Series 2021-2 bonds were issued at a premium of \$47.3 million and have principal maturities between 2021 and 2041 with coupons ranging from 3.00% to 5.00%. The bonds were issued to refund the Series 2011B Second Lien Revenue Bonds.

On September 28, 2021, CWA issued \$44.5 First Lien Revenue Bonds, Series 2021A. The Series 2021A bonds were issued at a premium of \$9 million and have principal maturities between 2022 and 2051 with coupons ranging from 3.00% to 5.00%. The bonds were issued to fund capital improvements.

On October 5, 2021, CWA issued \$52.5 million of State Revolving Fund Bonds, Series 2021B. The bonds were issued at par and have principal maturities between 2023 and 2052 with 2.38% coupons. 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	Amount Outstanding at (in millions)	
					December 31, 2021	September 30, 2021
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	September 29, 2024	LIBOR + 0.52%	0.250%	-	-
Thermal	20.0 million	July 25, 2022	LIBOR + 1.125%	0.125%	-	-
Water	25.0 million	November 18, 2022	82% of LIBOR + 1.31%	0.200%	-	-
Water	15.0 million	April 30, 2023	LIBOR + 1.50%	0.200%	-	-
Water	25.0 million	November 2, 2023	83% of LIBOR + 0.95%	0.250%	-	-
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%	-	-

Resources

Westfield Gas, Westfield Water, and Westfield Wastewater have established lines of credit and loans 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, 2021	September 30, 2021
Westfield Gas	4.0 million	March 30, 2024	LIBOR + 1.65%	0.250%	4.0	4.0
Westfield Gas	1.0 million	August 18, 2022	LIBOR + 1.65%	-	1.0	1.0
Westfield Water	5.0 million	March 14, 2022	LIBOR + 0.90%	0.100%	2.5	2.5
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 Condensed Combined Statements of Financial Position in the line item labeled, "Short-term borrowings". Outstanding borrowings with maturities greater than twelve months from the balance sheet date are classified as non-current liabilities in the Condensed Combined Statements of Financial Position in the line item labeled, "Other long-term liabilities".

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 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, 2021								
	<u>Gas</u>	<u>Steam</u>	<u>Chilled Water</u>	<u>Water</u>	<u>Waste-Water</u>	<u>Resources</u>	<u>Intercompany Eliminations</u>	<u>Total</u>	
Residential	\$ 49,990	\$ -	\$ -	\$ 27,383	\$ 40,944	\$ 6,205	\$ -	\$ 124,522	
Commercial	18,603	10,713	6,508	17,177	26,766	1,862	(367)	81,262	
Industrial	4,025	7,767	83	2,250	9,088	192	(2,507)	20,898	
Other	2,159	115	-	1,883	3,345	1,939	-	9,441	
Revenues - Contracts w/Customers	74,777	18,595	6,591	48,693	80,143	10,198	(2,874)	236,123	
Alternative Revenue Programs	-	-	-	-	-	59	-	59	
Gross Operating Revenues	\$ 74,777	\$ 18,595	\$ 6,591	\$ 48,693	\$ 80,143	\$ 10,257	\$ (2,874)	\$ 236,182	

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

Accounts Receivable and Unbilled Revenue

Amounts due from customers are reflected on the Condensed Combined Statements of Financial Position in the line items labeled "Accounts receivable" for revenue billed to customers and "Accrued utility revenue" which represents 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, 2021, and 2020 are presented in the tables below.

Citizens and CWA are offering flexible payment plans to customers impacted or experiencing hardship as a result of COVID-19. At December 31, 2021, the Company's allowance for doubtful accounts is \$6.3 million compared with \$6.6 million at September 30, 2021. 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, 2021	\$ 34,497	\$ 9,282	\$ 2,277	\$ 17,671	\$ 31,136	\$ 3,852	\$ 98,715
Balance at September 30, 2021	11,676	5,094	6,120	24,914	28,522	3,276	79,602
Increase (Decrease)	\$ 22,821	\$ 4,188	\$ (3,843)	\$ (7,243)	\$ 2,614	\$ 576	\$ 19,113
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

Accrued Utility Revenue

<u>\$ Thousands</u>	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Total
Balance at December 31, 2021	\$ 12,823	\$ -	\$ -	\$ 7,913	\$ 14,699	\$ 626	\$ 36,061
Balance at September 30, 2021	3,510	-	-	9,061	13,690	562	26,823
Increase (Decrease)	\$ 9,313	\$ -	\$ -	\$ (1,148)	\$ 1,009	\$ 64	\$ 9,238
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)	\$ 13,447	\$ -	\$ -	\$ (2,352)	\$ (337)	\$ (100)	\$ 10,658

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, 2021, and September 30, 2021, statements of operations for the three months ended December 31, 2021, and 2020, and statements of cash flows for the three months ended December 31, 2021, and 2020 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, 2021*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Assets									
Property, plant, and equipment	\$ 361,437	\$ 76,907	\$ 66,165	\$ 1,253,988	\$ 2,338,854	\$ 262,253	\$ 22,875	\$ -	\$ 4,382,479
Intangibles	-	12,973	36,590	-	-	-	-	-	49,563
Investments	8,864	8,233	1,596	68,099	177,958	806	21	-	265,577
Cash and cash equivalents	25,024	3,940	22,154	43,600	131,769	26,166	15,312	-	267,965
Other current assets	91,306	14,318	13,540	30,557	52,647	8,102	(1,607)	(11,868)	196,995
Deferred charges and other non-current assets	2,362	1,025	43	15,882	3,247	569	1,443	-	24,571
Total assets	\$ 488,993	\$ 117,396	\$ 140,088	\$ 1,412,126	\$ 2,704,475	\$ 297,896	\$ 38,044	\$ (11,868)	\$ 5,187,150
Capitalization and Liabilities									
Equity	\$ 249,529	\$ 28,943	\$ 108,331	\$ 237,548	\$ 262,102	\$ 127,713	\$ (35,519)	\$ -	\$ 978,647
Long-term debt	146,650	52,279	19,860	863,301	2,171,556	49,841	-	-	3,303,487
Retirement benefit and Other long-term liabilities	24,591	9,639	1,752	236,423	133,810	109,031	62,260	-	577,506
Current mat. of long-term debt	15,405	6,922	5,118	30,860	48,905	-	-	-	107,210
Short-term borrowings	-	-	-	-	-	3,500	-	-	3,500
Other current liabilities	52,818	19,613	5,027	43,994	88,102	7,811	11,303	(11,868)	216,800
Total capitalization and liabilities	\$ 488,993	\$ 117,396	\$ 140,088	\$ 1,412,126	\$ 2,704,475	\$ 297,896	\$ 38,044	\$ (11,868)	\$ 5,187,150

Segment Footnote - Condensed Combined Statement of Financial Position*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**At September 30, 2021*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Assets									
Property, plant, and equipment	\$ 362,248	\$ 75,652	\$ 66,163	\$ 1,243,820	\$ 2,306,925	\$ 254,163	\$ 23,149	\$ -	\$ 4,332,120
Intangibles	-	13,219	37,270	-	-	-	-	-	50,489
Investments	5,980	16,204	6,052	75,641	157,367	1,762	22	-	263,028
Cash and cash equivalents	73,703	733	24,024	48,499	168,303	31,596	17,689	-	364,547
Other current assets	56,367	10,316	12,934	37,946	48,050	6,523	1,806	(11,456)	162,486
Deferred charges and other non-current assets	2,731	1,290	94	17,041	3,751	555	3,281	-	28,743
Total assets	\$ 501,029	\$ 117,414	\$ 146,537	\$ 1,422,947	\$ 2,684,396	\$ 294,599	\$ 45,947	\$ (11,456)	\$ 5,201,413
Capitalization and Liabilities									
Equity	\$ 233,656	\$ 27,756	\$ 107,910	\$ 227,563	\$ 234,539	\$ 125,514	\$ (36,679)	\$ -	\$ 920,259
Long-term debt	147,452	59,422	25,136	875,001	2,163,427	53,842	-	-	3,324,280
Retirement benefit and Other long-term liabilities	25,822	9,957	1,781	232,199	129,219	103,002	65,382	-	567,362
Current mat. of long-term debt	15,405	6,213	5,167	29,610	32,775	-	-	-	89,170
Short-term borrowings	-	-	-	-	-	3,500	-	-	3,500
Other current liabilities	78,694	14,066	6,543	58,574	124,436	8,741	17,244	(11,456)	296,842
Total capitalization and liabilities	\$ 501,029	\$ 117,414	\$ 146,537	\$ 1,422,947	\$ 2,684,396	\$ 294,599	\$ 45,947	\$ (11,456)	\$ 5,201,413

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, 2021*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 73,024	\$ 18,048	\$ 6,591	\$ 48,530	\$ 79,897	\$ 10,092	\$ -	\$ -	\$ 236,182
Intercompany revenues	1,753	547	-	163	246	165	-	(2,874)	-
Gross operating revenues	74,777	18,595	6,591	48,693	80,143	10,257	-	(2,874)	236,182
Operating expenses:									
Cost of goods sold	32,179	10,436	2,126	-	-	1,126	-	(2,472)	43,395
Operations and maintenance	17,860	4,828	2,099	20,028	20,886	4,457	21	(395)	69,784
Depreciation and amortization	4,747	1,356	1,368	6,891	15,020	1,397	-	-	30,779
Taxes	2,618	433	511	4,112	7,317	668	-	-	15,659
Total operating expenses	57,404	17,053	6,104	31,031	43,223	7,648	21	(2,867)	159,617
Operating income (loss)	17,373	1,542	487	17,662	36,920	2,609	(21)	(7)	76,565
Other income (expense), net:									
Interest income	9	-	19	110	46	-	19	(18)	185
Non-operating post-employment									
benefits, net	743	144	39	573	250	51	-	-	1,800
Other	(300)	-	-	160	64	59	(360)	-	(377)
Total other income (expense), net	452	144	58	843	360	110	(341)	(18)	1,608
Income (loss) before interest charges	17,825	1,686	545	18,505	37,280	2,719	(362)	(25)	78,173
Interest charges:									
Interest on long-term debt	1,922	685	292	9,759	20,864	513	18	(18)	34,035
Other interest, including net (premium)									
discount amortization	(643)	(115)	(158)	(1,331)	(11,113)	6	-	-	(13,354)
Total interest charges	1,279	570	134	8,428	9,751	519	18	(18)	20,681
Income (loss) from continuing operations	16,546	1,116	411	10,077	27,529	2,200	(380)	(7)	57,492
Loss from discontinued operations	-	-	-	-	-	-	(10)	7	(3)
Net income (loss)	\$ 16,546	\$ 1,116	\$ 411	\$ 10,077	\$ 27,529	\$ 2,200	\$ (390)	\$ -	\$ 57,489

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 interest charges	20,707	2,279	(256)	20,094	33,429	3,409	(255)	(14)	79,393
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 Cash Flows*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**For the Three Months Ended December 31, 2021 (In Thousands)*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Total
Net cash provided by (used in) operating activities	(39,834)	3,619	(890)	10,897	12,666	2,075	(1,965)	\$ (13,432)
Investing Activities:								
Construction expenditures	(5,124)	(2,170)	(269)	(15,444)	(59,803)	(4,118)	(1,413)	(88,341)
Other investing activities	2,545	2,538	-	(124)	(127)	473	1	5,306
Net cash provided by (used in) investing activities	(2,579)	368	(269)	(15,568)	(59,930)	(3,645)	(1,412)	(83,035)
Financing Activities:								
Principal payments of long-term debt and bond refunding	-	(6,213)	(5,167)	(8,600)	(23,080)	(4,000)	-	(47,060)
Proceeds from issuance of long-term debt and bond refunding	-	-	-	-	52,556	-	-	52,556
Bond issuance costs	-	-	-	-	(371)	-	-	(371)
Contributions in aid of construction	-	-	-	634	2,089	(343)	-	2,380
Other financing activities	(837)	-	-	-	-	-	1,000	163
Net cash provided by (used in) financing activities	(837)	(6,213)	(5,167)	(7,966)	31,194	(4,343)	1,000	7,668
Net change in cash, cash equivalents, and restricted cash	(43,250)	(2,226)	(6,326)	(12,637)	(16,070)	(5,913)	(2,377)	(88,799)
Cash, cash equivalents & restricted cash - beginning of period	77,783	12,505	30,076	95,358	324,163	32,565	17,689	590,139
Cash, cash equivalents & restricted cash - end of period	\$ 34,533	\$ 10,279	\$ 23,750	\$ 82,721	\$ 308,093	\$ 26,652	\$ 15,312	\$ 501,340
Reconciliation:								
Cash and cash equivalents	\$ 25,024	\$ 3,940	\$ 22,154	\$ 43,600	\$ 131,769	\$ 26,166	\$ 15,312	\$ 267,965
Restricted cash included in Bond restricted funds	9,509	6,339	1,596	36,897	174,147	486	-	228,974
Restricted cash included in Investments, Other	-	-	-	2,224	2,177	-	-	4,401
Cash, cash equivalents & restricted cash - end of period	\$ 34,533	\$ 10,279	\$ 23,750	\$ 82,721	\$ 308,093	\$ 26,652	\$ 15,312	\$ 501,340

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 provided by (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	-	-	-	-	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

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, 2021

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Assets						
Property, plant, and equipment	\$ -	\$ 15,220	\$ 112,082	\$ 128,862	\$ -	\$ 256,164
Investments	119,697	321	-	-	(119,697)	321
Cash and cash equivalents	132	1,870	864	14,951	-	17,817
Other current assets	-	4,783	1,407	1,910	-	8,100
Other non-current assets	-	569	201	285	-	1,055
Total assets	\$ 119,829	\$ 22,763	\$ 114,554	\$ 146,008	\$ (119,697)	\$ 283,457
Capitalization and Liabilities						
Member's equity	\$ 114,916	\$ 15,109	\$ 39,431	\$ 65,157	\$ (119,697)	\$ 114,916
Long-term debt	4,923	-	19,928	24,991	-	49,842
Other long-term borrowings	-	4,000	-	-	-	4,000
Other long-term liabilities	-	1	50,067	54,137	-	104,205
Current maturities of long-term debt	-	-	-	-	-	-
Short-term borrowings	-	1,000	2,500	-	-	3,500
Other current liabilities	(10)	2,653	2,628	1,723	-	6,994
Total capitalization and liabilities	\$ 119,829	\$ 22,763	\$ 114,554	\$ 146,008	\$ (119,697)	\$ 283,457

Condensed Consolidated Statement of Financial Position

Citizens Westfield Utilities, LLC

(In Thousands)

At September 30, 2021

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Assets						
Property, plant, and equipment	\$ -	\$ 14,431	\$ 107,832	\$ 125,770	\$ -	\$ 248,033
Investments	116,191	-	-	-	(116,191)	-
Cash and cash equivalents	108	1,560	1,667	14,993	-	18,328
Other current assets	91	3,560	1,935	1,771	-	7,357
Other non-current assets	-	555	402	568	-	1,525
Total assets	\$ 116,390	\$ 20,106	\$ 111,836	\$ 143,102	\$ (116,191)	\$ 275,243
Capitalization and Liabilities						
Member's equity	\$ 107,408	\$ 13,302	\$ 39,063	\$ 63,826	\$ (116,191)	\$ 107,408
Long-term debt	8,912	-	19,927	25,002	-	53,841
Other long-term borrowings	-	4,000	-	-	-	4,000
Other long-term liabilities	-	-	47,179	50,991	-	98,170
Current maturities of long-term debt	-	-	-	-	-	-
Short-term borrowings	-	1,000	2,500	-	-	3,500
Other current liabilities	70	1,804	3,167	3,283	-	8,324
Total capitalization and liabilities	\$ 116,390	\$ 20,106	\$ 111,836	\$ 143,102	\$ (116,191)	\$ 275,243

Condensed Consolidated Statement of Operations
Citizens Westfield Utilities, LLC
For the Three Months Ended December 31, 2021
(In Thousands)

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	\$ -	\$ 2,140	\$ 2,470	\$ 3,784	\$ -	\$ 8,394
Operating expenses						
Cost of goods sold	-	1,126	-	-	-	1,126
Other operating expenses	8	437	1,207	1,184	-	2,836
Depreciation and amortization	-	200	441	717	-	1,358
Taxes	-	60	325	268	-	653
Total operating expenses	8	1,823	1,973	2,169	-	5,973
Total operating (loss) income	(8)	317	497	1,615	-	2,421
Other income (expense)	-	13	77	15	-	105
Equity in earnings of subsidiaries	2,056	-	-	-	(2,056)	-
Interest charges						
Interest on long-term debt	30	-	200	283	-	513
Other interest	10	22	6	(33)	-	5
Total interest charges	40	22	206	250	-	518
Net income (loss)	\$ 2,008	\$ 308	\$ 368	\$ 1,380	\$ (2,056)	\$ 2,008

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 (expense)	-	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 Cash Flows

Citizens Westfield Utilities, LLC

(In Thousands)

For the Three Months Ended December 31, 2021

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Total
Net cash provided by (used in) operating activities	\$ (26)	\$ (293)	\$ 797	\$ 981	\$ 1,459
Investing Activities:					
Construction expenditures	-	(1,370)	(1,371)	(1,343)	(4,084)
Other investing activities	-	473	-	-	473
Net cash provided by (used in) investing activities	-	(897)	(1,371)	(1,343)	(3,611)
Financing Activities:					
Principal payments of long-term debt and bond refunding	(4,000)	-	-	-	(4,000)
Additional paid-in capital and dividends	4,050	1,500	-	(50)	5,500
Contributions in aid of construction and customer advances, net	-	-	(429)	87	(342)
Net cash provided by (used in) financing activities	50	1,500	(429)	37	1,158
Net change in cash, cash equivalents, and restricted cash	24	310	(1,003)	(325)	(994)
Cash, cash equivalents & restricted cash - beginning of period	108	1,560	2,068	15,561	19,297
Cash, cash equivalents & restricted cash - end of period	\$ 132	\$ 1,870	\$ 1,065	\$ 15,236	\$ 18,303
Reconciliation:					
Cash and cash equivalents	\$ 132	\$ 1,870	\$ 864	\$ 14,951	\$ 17,817
Restricted cash included in Other non-current assets	-	-	201	285	486
Cash, cash equivalents & restricted cash - end of period	\$ 132	\$ 1,870	\$ 1,065	\$ 15,236	\$ 18,303

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 provided by (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

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, 2021, and 2020.

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):

	<u>Combined Statement of Financial Position Classification</u>	<u>At December 31, 2021</u>	<u>At September 30, 2021</u>
Assets			
Right-of-use assets - operating leases	Property, plant, and equipment, net	\$ 3,294	\$ 3,358
Liabilities			
Operating lease liabilities - current	Other current liabilities	\$ 265	\$ 261
Operating lease liabilities - non-current	Other long-term liabilities	\$ 3,029	\$ 3,097

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

	<u>Three Months Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Operating lease expense	\$ 105	\$ 105
Short-term lease expense	230	156
Variable lease expense	48	30
Total lease expense	<u>\$ 383</u>	<u>\$ 291</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:

	<u>At December 31, 2021</u>
2022	\$ 315
2023	420
2024	420
2025	420
2026	420
Thereafter	2,170
Total operating lease payments	4,165
Less: imputed interest	871
Total operating lease liabilities	<u>\$ 3,294</u>

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

	<u>At December 31, 2021</u>
Weighted-average remaining lease term	119 months
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, 2021, and 2020, 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 condensed combined financial statements in accordance with FASB guidance related to asset retirement obligations (ASC 410-20) and exit or disposal cost obligations (ASC 420). Citizens enrolled this facility in the Indiana Department of Environmental Management Voluntary Remediation Program to address historical environmental impacts associated with these operations. Demolition costs concluded in 2017, and costs of remediation will continue for several years. As the full nature and extent of the environmental impacts can be difficult to determine with certainty, Citizens, in conjunction with internal and external environmental consultants, has estimated and accrued costs associated with environmental remediation of this site based on currently available information. Estimates of these costs are included in the condensed combined financial statements as part of the asset retirement obligation. Citizens reviews the asset retirement obligation annually, evaluating newly assumed costs or substantive changes in previously assumed costs to determine if cost estimate impacts are sufficiently material to warrant application of the updated estimates to the asset retirement obligation. Changes resulting from revisions to the timing or amount of the original estimate of cash flows are recognized as an increase or a decrease in the asset retirement cost to the extent applicable.

Activity for the three months ended December 31, 2021, for the asset retirement obligation liability is as follows (in thousands):

Asset retirement obligation at September 30, 2021	\$	13,054
Accretion expense		117
Remediation liabilities settled		(141)
Asset retirement obligation at December 31, 2021	\$	<u>13,030</u>

The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) at December 31, 2021, and September 30, 2021, are as follows (in thousands):

	December 31, 2021	September 30, 2021
Current assets	\$ 1,184	\$ 548
Deferred charges and other non-current assets	1	-
Total assets	<u>\$ 1,185</u>	<u>\$ 548</u>
Equity (deficiency)	\$ (16,523)	\$ (17,587)
Retirement benefit and other long-term liabilities	17,591	17,919
Current liabilities	117	216
Total capitalization and liabilities	<u>\$ 1,185</u>	<u>\$ 548</u>

For the three months ended December 30, 2021, and 2020, Discontinued Operations operating expenses were \$0.0 million and \$0.1 million, respectively. Approximately \$1.0 million of cash was provided by Gas to Discontinued Operations during fiscal year 2021, and an additional \$1.0 million during the three months ended December 31, 2021, to settle a portion of the liabilities. Additional cash funding from Gas to settle liabilities may be provided to Discontinued Operations in future periods.

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.

On April 1, 2021, Citizens Gas filed its petition for Gas Cost Adjustment (GCA) to be applicable during the months of June – August 2021. In testimony supporting the petition, the utility described certain weather-related events that

occurred during February 2021, the steps the utility took to manage its gas supply while those events were ongoing, and the corresponding effects on the gas cost adjustments that were proposed. The utility was able to take advantage of capital investments it has made and operational planning it has conducted to safely and reliably meet the natural gas needs of customers in Indianapolis during the February weather event and also sell gas supplies in certain production areas with the highest price and replace those supplies from a different production area with a lower price. These wholesale sales transactions generated margins that the utility proposed be credited to customers via the GCA, contributing to a projected variance of \$10.6 million. On May 26, 2021, the IURC issued an order finding the steps the utility took during the February weather event, including the wholesale sales transactions, were reasonable and approved the utility's proposal that margins realized from the wholesale sales be credited to customers via the GCA.

On July 1, 2021, Citizens Gas filed a petition requesting the IURC decline to exercise, in part, its jurisdiction over Citizens Gas as an "energy utility" with respect to the utility's proposed provision of natural gas storage services and sales of natural gas in the wholesale market for natural gas. Under its proposal, Citizens Gas will use the margins it realizes from the sale of storage services to offset the revenue requirements used to establish base rates in future rate cases and will credit 100 percent of the margins associated with wholesale natural gas sales to retail customers via the GCA. On September 3, 2021, the OUCC filed testimony recommending approval of the relief requested in Citizens Gas's petition. On November 24, 2021, the IURC issued an order declining to exercise, in part, its jurisdiction over Citizens Gas's provision of natural gas storage services and sales of natural gas in the wholesale market. The IURC also approved the utility's proposal to use the margins it realizes from the sale of storage services to offset the revenue requirements used to establish base rates in future rate cases and credit 100 percent of the margins associated with wholesale natural gas sales to retail customers via the GCA.

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.

On August 19, 2021, Citizens Water filed a petition with the IURC requesting certain approvals relating to its Lead Service Line Placement Plan ("Plan"), which sets forth a holistic plan to address the legacy of lead service lines serving customers on the Citizens Water system. Pursuant to a statute enacted by the Indiana General Assembly in 2017, the IURC is authorized to approve a water utility's plan for the replacement of the customer owned portion of the lead service lines within or connected to the water utility's system, provided certain statutory criteria are met. The Plan is estimated to cost \$526 million in 2020 dollars. On October 21, 2021, the OUCC filed testimony stating, among other things, that Citizens Water had met the statutory elements and recommended approval of the Plan. An uncontested evidentiary hearing was held on November 22, 2021. On December 1, 2021, Citizens Water submitted an unopposed proposed order, which is pending before the Commission. If the IURC approves the Plan, Citizens Water will file a petition requesting approval of a rate mechanism to recover the cost of the Plan.

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 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. 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 took effect on September 29, 2021, and was reduced by \$1.2 million effective October 25, 2021, since the actual debt service on the CWA bonds issued in 2021 was less 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 April 1, 2021, Westfield Gas filed its application for Gas Cost Adjustment to be applicable during the months of June – August 2021. In testimony supporting the petition, the utility described certain weather-related events that occurred during February 2021, the steps the utility took to manage its gas supply while those events were ongoing, and the corresponding effects on the gas cost adjustments that were proposed. Westfield Gas proposed that an under recovery

of gas costs in the amount of \$2.4 million due to the February weather event be collected over a 24-month period to mitigate the bill impact to customers. On May 26, 2021, the IURC approved the utility's proposal to collect the February 2021 under recovery over 24 months. The IURC also found the steps Westfield Gas took to manage its supply during the February weather event satisfied the statutory requirement that the utility follow a policy of securing natural gas supply at the lowest gas cost reasonably possible to meet anticipated customer requirements.

On January 14, 2022, Westfield Gas filed with the IURC a petition requesting approvals related to certain financing transactions, including approval to issue through December 31, 2022, up to \$4 million of long-term debt and approval to extend the utility's current three-year line of credit by an additional year and increase the line of credit to \$7 million.

Resources - Westfield Water

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

On July 29, 2021, Westfield Water filed a petition requesting approval for long-term financing up to \$16 million and to extend and increase an existing \$5 million line of credit for up to \$7 million. On October 7, 2021, the OUCC filed testimony recommending approval of the relief requested in Westfield Water's petition. A hearing was held on November 17, 2021. On January 5, 2022, the IURC issued an order approving the requested relief.

Resources – Westfield Wastewater

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

On July 29, 2021, Westfield Wastewater filed a petition requesting approval to extend an existing \$5 million line of credit. On October 7, 2021, the OUCC filed testimony recommending approval of the relief requested in Westfield Wastewater's petition. A hearing was held on November 19, 2021. On January 5, 2022, the IURC issued an order approving the requested relief.

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 11 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 Condensed Combined Statements of Financial Position and represents management's best estimate of the costs for remediation and restoration of the site. The accrued liability related to Langsdale environmental remediation was \$0.3 million at December 31, 2021, and September 30, 2021. 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 includes 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. Since 2017, IDEM has made significant progress to move the site toward de-proposal in accordance with the terms set forth by the EPA. On December 7, 2021, a request to de-propose the site was approved by the EPA Region 5 Superfund Division Director and the matter was forwarded to EPA Headquarters for approval. While the company has incurred and may continue to incur costs related to IDEM's response actions, 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.

In 1991, the EPA issued federal regulations that establish acceptable concentrations of lead and copper in public water supplies, as measured at the customer's tap (the "EPA Lead and Copper Rule"). Samples of the Water System have never exceeded the acceptable levels established in the existing EPA Lead and Copper Rule. However, in January 2021, the EPA proposed revisions to the Lead and Copper Rule that, if adopted, would include several new requirements, including revised sampling procedures and action levels as well as development of a lead service line replacement program. Additionally, the Indiana General Assembly has enacted statutes that authorize the IURC to approve a water utility's plan for the replacement of the customer owned portion of the lead service lines within or connected to the water utility's system. While we cannot predict with certainty the final revisions the EPA will make to the EPA Lead and Copper Rule, the Water System is taking proactive steps to align itself with the policies and regulations of the federal government and the State of Indiana, including the Indiana General Assembly, regarding customer-owned lead service lines.

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 Pogues 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 Pogues 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 began on the tunnel system's final segment, the 7.6-mile Pleasant Run Tunnel, in April 2021. CWA estimates the projected cost of the Consent Decree, including capital and operation and maintenance costs, is approximately \$2.0 billion in 2016 dollars.

In December 2021, CWA requested a six-month extension of time from the U.S. Department of Justice, U.S. Environmental Protection Agency, and Indiana Department of Environmental Management (collectively, the Agencies) for three enforceable deadlines contained in the CSO Consent Decree. The requests were based on force majeure claims due to delays in obtaining necessary materials and equipment, the need to replace defective materials and equipment, and transportation delays, most of which were attributable to the effects of COVID-19 on the operations of our contractors, suppliers, and shipping companies. These delays qualify as force majeure events which are completely outside CWA's span of control. As required by the Consent Decree, CWA has taken measures to minimize any adverse environmental impact associated with these delays, including equipment substitution where possible, and manual operation of the Upper Pogues Run Storage pumps. If the Agencies do not grant the six-month extension of time to complete the projects as requested, CWA may be liable for various financial penalties per the Consent Decree. Due to the uncertainty regarding ultimate approval of the requested extension, the impact on the Company's financial position, results of operations and cash flows cannot be reasonably estimated at this time.

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 16, 2022, the date at which these condensed combined financial statements were issued.