



**QUARTERLY**  
FINANCIAL REPORT  
Q2 - 2019

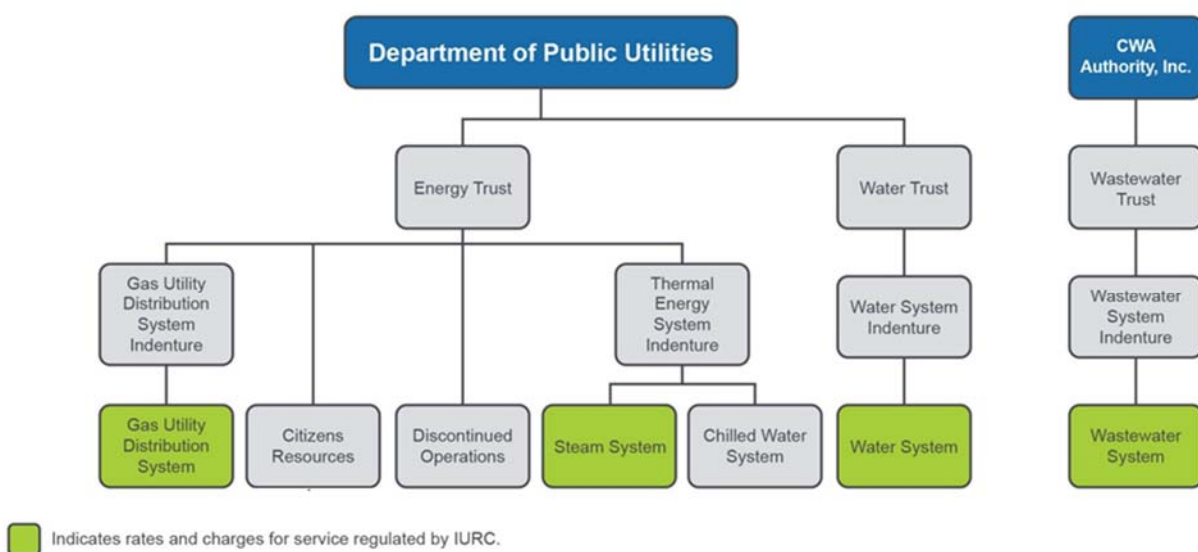
## MANAGEMENT DISCUSSION AND ANALYSIS

### Forward-looking Statements

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

### Organization Structure

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



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

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

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

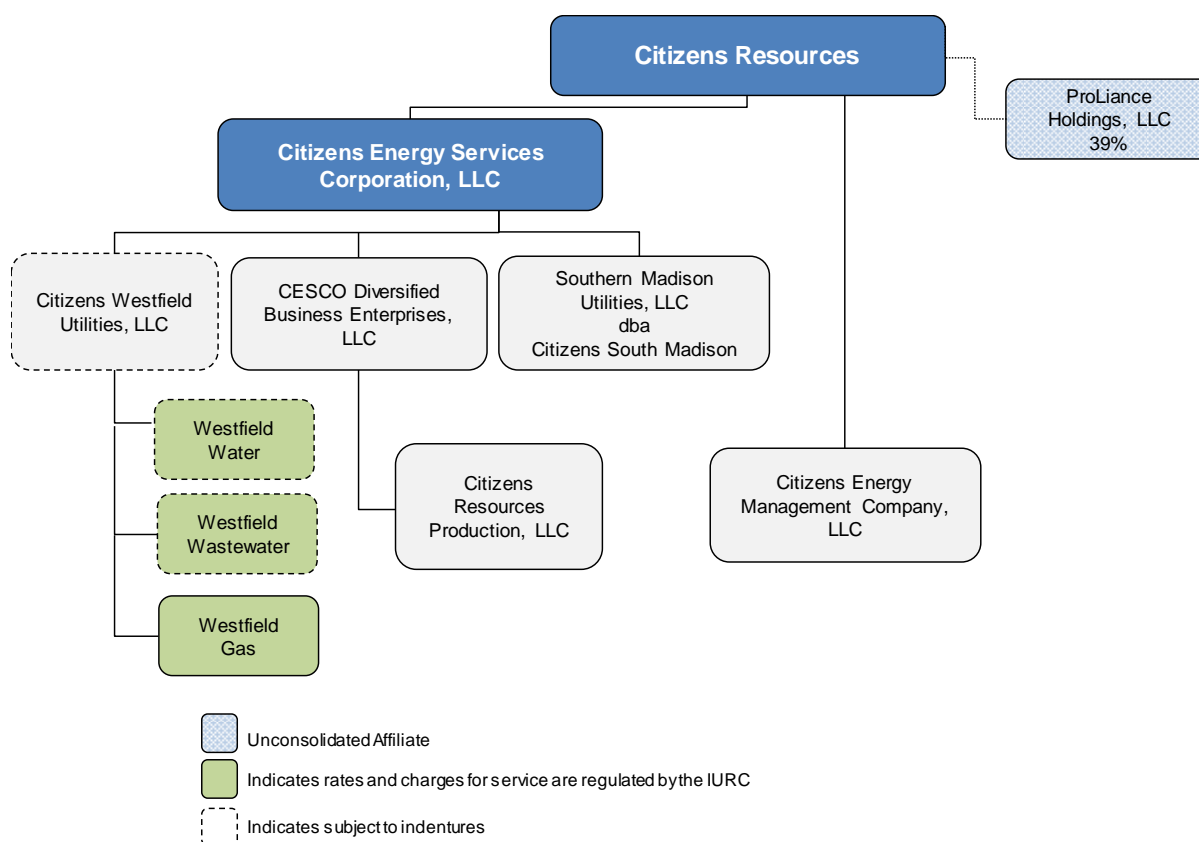
Separate indentures exist to issue debt obligations for the Gas Utility Distribution System, the Thermal Energy System, the Water System, and the Wastewater System. Each indenture captures only the revenues from the respective System, pays the operating expenses of that System and then debt service on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

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

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

<sup>1</sup> Under public policy reflected in state law governing corporations and limited liability companies ("LLCs"), the parent stockholder of a subsidiary corporation or the parent member of a subsidiary LLC is given substantial protection against liability for the acts or debts of the subsidiary, subject to the established inherent limitations of these structures under such applicable state law.

<sup>2</sup> Since Citizens includes the results of operations of Citizens Resources and its subsidiaries and affiliates in its combined financial statements, an accounting loss within Citizens Resources will be reflected in Citizens' combined financial statements. This accounting result, though, does not create the basis upon which the liabilities of Citizens Resources or its subsidiaries or affiliates can be imposed upon Citizens or the cash flows held under any Indentures.



## FINANCIAL RESULTS

The tables and discussion below summarize the financial results for each segment (in millions) and present an analysis of the results of our operations for the three months and six months ended March 31, 2019 and 2018. Because of the seasonal nature of the various business units, results of operations for the period ended March 31, 2019 are not necessarily indicative of the results of operations to be expected for the full fiscal year. For a more detailed understanding of these results, see the following notes to the condensed combined financial statements:

- Note 2D – Investment in Unconsolidated Affiliates
- Note 2G – Change in Accounting Estimate
- Note 3 – Long-Term Debt
- Note 6 – Financial Segment Information
- Note 8 – Discontinued Operations and Related Asset Retirement Obligations
- Note 9 – Rate and Regulatory Matters, Wastewater

## SHARED SERVICES

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

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Mar 31			Six Months Ended Mar 31		
	2019	2018	Change	2019	2018	Change
Shared Services Expenses	\$ 21.9	\$ 24.8	\$ (2.9)	\$ 46.7	\$ 49.6	\$ (2.9)

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

**Three Months Ended March 31, 2019 as Compared with 2018**

Shared services expenses decreased \$2.9 million resulting from lower depreciation expense, pension and post-employment benefit costs, employee healthcare expenses, and information technology support costs.

**Six Months Ended March 31, 2019 as Compared with 2018**

Shared services expenses decreased \$2.9 million as lower depreciation expense, pension and post-employment benefit costs, and employee healthcare expenses were partially offset by higher labor costs.

**GAS**

	Quarter-to-Date vs. Prior Year Three Months Ended Mar 31			Year-to-Date vs. Prior Year Six Months Ended Mar 31		
	2019	2018	Change	2019	2018	Change
Operating revenues	\$ 114.7	\$ 111.1	\$ 3.6	\$ 195.6	\$ 192.8	\$ 2.8
Cost of goods sold	56.4	53.9	2.5	95.1	91.9	3.2
Margin	58.3	57.2	1.1	100.5	100.9	(0.4)
Other operating expenses	22.4	24.6	(2.2)	46.9	48.7	(1.8)
Operating income (loss)	35.9	32.6	3.3	53.6	52.2	1.4
Other income (expense), net	0.2	0.1	0.1	0.3	0.1	0.2
Interest charges	2.8	3.1	(0.3)	5.5	6.3	(0.8)
Segment income (loss)	\$ 33.3	\$ 29.6	\$ 3.7	\$ 48.4	\$ 46.0	\$ 2.4
Volume sales, million Dth						
Retail	15.4	14.8	0.6	25.4	24.6	0.8
Transportation	6.0	7.2	(1.2)	11.0	12.8	(1.8)
Power generation and other	3.6	4.1	(0.5)	7.0	9.1	(2.1)
Cost of gas sold, per Dth	\$ 3.65	\$ 3.64	\$ 0.01	\$ 3.74	\$ 3.73	\$ 0.01
Heating degree days	2,849	2,795	54	4,896	4,739	157

**Three Months Ended March 31, 2019 as Compared with 2018**

Margin – Gas margin was \$1.1 million higher than prior period, principally the result of higher retail margin net of normal temperature adjustment (NTA).

Other operating expenses – The decrease of \$2.2 million was primarily due to lower depreciation and shared services expense allocations.

**Six Months Ended March 31, 2019 as Compared with 2018**

Margin – Gas margin was \$0.4 million lower than prior period as decreased power generation and transportation margin was partially offset by increased retail margin.

Other operating expenses – The decrease of \$1.8 million was primarily due to lower depreciation and shared services expense allocations.

Interest Charges – \$0.8 million decrease driven by lower amount of outstanding debt.

**STEAM**

	Quarter-to-Date vs. Prior Year Three Months Ended Mar 31			Year-to-Date vs. Prior Year Six Months Ended Mar 31		
	2019	2018	Change	2019	2018	Change
Operating revenues	\$ 20.5	\$ 22.4	\$ (1.9)	\$ 37.9	\$ 41.6	\$ (3.7)
Cost of goods sold	9.5	11.1	(1.6)	17.5	21.1	(3.6)
Margin	11.0	11.3	(0.3)	20.4	20.5	(0.1)
Other operating expenses	5.7	6.3	(0.6)	12.6	12.6	-
Operating income (loss)	5.3	5.0	0.3	7.8	7.9	(0.1)
Other income (expense), net	-	-	-	-	-	-
Interest charges	0.7	0.8	(0.1)	1.5	1.6	(0.1)
Segment income (loss)	\$ 4.6	\$ 4.2	\$ 0.4	\$ 6.3	\$ 6.3	\$ (0.0)
Volume sales, million therms	18.2	18.6	(0.4)	33.9	33.9	-
Heating degree days	2,849	2,795	54	4,896	4,739	157

**Three Months Ended March 31, 2019 as Compared with 2018**

Margin – Margin was \$0.3 million lower than prior period, principally the result of lower volume sold.

Other operating expenses – The decrease of \$0.6 million was primarily due to lower plant and distribution maintenance expenses.

**Six Months Ended March 31, 2019 as Compared with 2018**

Amounts are consistent with prior year.

**CHILLED WATER**

	Quarter-to-Date vs. Prior Year Three Months Ended Mar 31			Year-to-Date vs. Prior Year Six Months Ended Mar 31		
	2019	2018	Change	2019	2018	Change
Operating revenues	\$ 4.4	\$ 4.7	\$ (0.3)	\$ 10.2	\$ 11.0	\$ (0.8)
Cost of goods sold	1.2	1.2	-	3.0	3.4	(0.4)
Margin	3.2	3.5	(0.3)	7.2	7.6	(0.4)
Other operating expenses	3.7	3.5	0.2	7.3	7.7	(0.4)
Operating income (loss)	(0.5)	-	(0.5)	(0.1)	(0.1)	(0.0)
Other income (expense), net	0.1	-	0.1	0.1	0.1	-
Interest charges	0.2	0.3	(0.1)	0.5	0.6	(0.1)
Segment income (loss)	\$ (0.6)	\$ (0.3)	\$ (0.3)	\$ (0.5)	\$ (0.6)	\$ 0.1
Volume sales, million ton hours	11.0	13.1	(2.1)	29.4	33.7	(4.3)
Cooling degree days	-	5	(5)	86	52	34

**Three Months Ended March 31, 2019 as Compared with 2018**

Margin – Margin was \$0.3 million lower than prior period, principally the result of lower volume sold.

**Six Months Ended March 31, 2019 as Compared with 2018**

Margin – Margin was \$0.4 million lower than prior period, principally the result of lower volume sold.

Other operating expenses – The decrease of \$0.4 million was primarily due to lower depreciation expense.

**WATER**

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Mar 31			Six Months Ended Mar 31		
	2019	2018	Change	2019	2018	Change
Operating revenues	\$ 46.2	\$ 47.0	\$ (0.8)	\$ 94.1	\$ 95.5	\$ (1.4)
Other operating expenses	28.5	33.2	(4.7)	61.2	65.2	(4.0)
Operating income (loss)	17.7	13.8	3.9	32.9	30.3	2.6
Other income (expense), net	0.8	0.1	0.7	1.3	1.1	0.2
Interest charges	9.2	11.6	(2.4)	18.7	23.4	(4.7)
Segment income (loss)	\$ 9.3	\$ 2.3	\$ 7.0	\$ 15.5	\$ 8.0	\$ 7.5
Volume sales, billion gallons	8.3	8.5	(0.2)	17.1	17.3	(0.2)

**Three Months Ended March 31, 2019 as Compared with 2018**

Operating revenues – Decreased revenues of \$0.8 million are primarily attributable to lower consumption among residential and commercial customers.

Other operating expenses – The \$4.7 million decrease was largely driven by lower depreciation, contract services, and shared services expense allocations.

Other income (expense), net – The increase of \$0.7 million was due to additional interest income on bond restricted funds.

Interest charges – The decrease of \$2.4 million was principally due to savings attributed to the refunding of the Water Series 2011F bonds in October 2018.

**Six Months Ended March 31, 2019 as Compared with 2018**

Operating revenues – Decreased revenues of \$1.4 million are primarily attributable to lower consumption among residential and commercial customers.

Other operating expenses – The \$4.0 million decrease was largely driven by lower depreciation expense and contract services.

Interest charges – The decrease of \$4.7 million was due to savings attributed to the refunding of the Water Series 2011F bonds in October 2018 and higher capitalized interest for capital projects.

**WASTEWATER**

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Mar 31			Six Months Ended Mar 31		
	2019	2018	Change	2019	2018	Change
Operating revenues	\$ 65.1	\$ 69.6	\$ (4.5)	\$ 132.1	\$ 140.1	\$ (8.0)
Other operating expenses	40.3	43.7	(3.4)	85.8	86.7	(0.9)
Operating income (loss)	24.8	25.9	(1.1)	46.3	53.4	(7.1)
Other income (expense), net	0.9	0.7	0.2	2.0	1.2	0.8
Interest charges	17.5	18.1	(0.6)	34.9	34.8	0.1
Segment income (loss)	\$ 8.2	\$ 8.5	\$ (0.3)	\$ 13.4	\$ 19.8	\$ (6.4)
Treatment volume sales, billion gallons	9.0	8.7	0.3	17.4	16.0	1.4
Strength surcharge, million pounds	18.1	13.3	4.8	32.3	23.3	9.0

**Three Months Ended March 31, 2019 as Compared with 2018**

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

Other operating expenses – The \$3.4 million decrease was primarily due lower depreciation and shared services expense allocations. These decreases were partially offset by increased payments in lieu of taxes (PILOT) per the established PILOT schedule, electricity costs, and sludge processing.

Interest charges – The decrease of \$0.6 million was largely attributable to lower interest costs resulting from decreased outstanding debt as a result of principal payments and higher capitalized interest expense for capital projects.

**Six Months Ended March 31, 2019 as Compared with 2018**

Operating revenues – Higher volume from satellite and industrial customers was more than offset by lower revenue from authorized alternative revenue programs.

Other operating expenses – The \$0.9 million decrease was primarily due to lower depreciation expense, offset by increased payments in lieu of taxes (PILOT) per the established PILOT schedule, electricity costs, and contract services.

Other income (expense), net – The \$0.8 million increase is principally due to additional interest income on bond restricted funds.

**RESOURCES**

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Mar 31			Six Months Ended Mar 31		
	2019	2018	Change	2019	2018	Change
Operating revenues	\$ 9.0	\$ 10.0	\$ (1.0)	\$ 17.4	\$ 19.3	\$ (1.9)
Cost of goods sold	1.0	0.8	0.2	1.6	1.4	0.2
Margin	8.0	9.2	(1.2)	15.8	17.9	(2.1)
Other operating expenses	5.0	6.3	(1.3)	10.5	12.1	(1.6)
Operating income (loss)	3.0	2.9	0.1	5.3	5.8	(0.5)
Other income (expense), net	0.1	-	0.1	0.1	0.2	(0.1)
Equity in earnings (loss) of affiliates	(0.1)	(0.1)	-	(0.1)	(2.0)	1.9
Interest charges	0.5	0.9	(0.4)	1.1	1.7	(0.6)
Segment income (loss)	\$ 2.5	\$ 1.9	\$ 0.6	\$ 4.2	\$ 2.3	\$ 1.9

**Three Months Ended March 31, 2019 as Compared with 2018**

Margin – Margin was \$1.2 million lower due to the sale of the Plummer Oil Field along with the transfer of Heartland Gas Pipeline assets to Gas in September 2018.

Other operating expenses – The \$1.3 million decrease is primarily due to the sale of the Plummer Oil Field in September 2018.

Interest charges – The decrease of \$0.4 million is largely attributable to lower outstanding debt for Citizens Westfield Utilities.

**Six Months Ended March 31, 2019 as Compared with 2018**

Margin – Margin was \$2.1 million lower due to the sale of the Plummer Oil Field along with the transfer of Heartland Gas Pipeline assets to Gas in September 2018, partially offset by increased margins at Citizens Westfield Utilities.

Other operating expenses – Operating expenses are \$1.6 million lower primarily due to the sale of the Plummer Oil Field in September 2018.

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

Interest charges – \$0.6 million lower due to lower outstanding debt for Citizens Westfield Utilities.

**OTHER**

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Mar 31			Six Months Ended Mar 31		
	2019	2018	Change	2019	2018	Change
Operating revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating expenses	-	0.1	(0.1)	-	0.2	(0.2)
Operating income (loss)	-	(0.1)	0.1	-	(0.2)	0.2
Other income (expense), net	(0.8)	(0.7)	(0.1)	(1.2)	(0.7)	(0.5)
Interest charges	-	-	-	-	-	-
Income (loss) from discontinued operations	(0.2)	(0.8)	0.6	(0.3)	(1.6)	1.3
Segment income (loss)	\$ (1.0)	\$ (1.6)	\$ 0.6	\$ (1.5)	\$ (2.5)	\$ 1.0

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.

**Three Months Ended March 31, 2019 as Compared with 2018**

Income (loss) from discontinued operations – \$0.6 million lower largely due to decreases in Asset Retirement Obligation accretion expense.

**Six Months Ended March 31, 2019 as Compared with 2018**

Other income (expense), net – \$0.5 million higher primarily driven by increases in community investments and energy assistance.

Income (loss) from discontinued operations – \$1.3 million lower largely due to decreases in Asset Retirement Obligation accretion expense and site administrative costs.

## LIQUIDITY AND CAPITAL RESOURCES

### Debt and Liquidity

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

### Capital Spending

For the six months ended March 31, 2019, capital expenditures, on an accrual basis, increased by \$16.2 million to \$124.1 million from \$107.9 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.

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
<b>Q2 2019</b>	<b>\$ 14.0</b>	<b>\$ 1.0</b>	<b>\$ 1.2</b>	<b>\$ 15.3</b>	<b>\$ 76.1</b>	<b>\$ 6.2</b>	<b>\$ 10.3</b>	<b>\$ 124.1</b>
<b>Q2 2018</b>	<b>10.6</b>	<b>3.7</b>	<b>0.7</b>	<b>21.9</b>	<b>58.7</b>	<b>2.8</b>	<b>9.5</b>	<b>107.9</b>
	<b>\$ 3.4</b>	<b>\$ (2.7)</b>	<b>\$ 0.5</b>	<b>\$ (6.6)</b>	<b>\$ 17.4</b>	<b>\$ 3.4</b>	<b>\$ 0.8</b>	<b>\$ 16.2</b>

Citizens' and CWA's projected capital spending requirement of \$329.1 million for 2019 is summarized as follows (in millions):

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
<b>2019 Projection</b>	<b>\$ 24.3</b>	<b>\$ 3.9</b>	<b>\$ 3.4</b>	<b>\$ 46.0</b>	<b>\$ 202.6</b>	<b>\$ 19.6</b>	<b>\$ 29.3</b>	<b>\$ 329.1</b>

Gas continues to invest in mains and services to maintain its commitment to modernization of its underground gas distribution system. Gas had cash and cash equivalents of \$105.6 million at March 31, 2019. Gas expects to meet its remaining capital spending requirements in 2019 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 March 31, 2019, cash and cash equivalents of Steam and Chilled Water amounted to \$10.1 million and \$24.3 million, respectively. Steam expects to meet its capital spending requirements in 2019 through cash flows from operations and temporary seasonal use of its credit line while Chilled Water expects to meet its 2019 capital spending requirements through cash flows from operations.

The Water business segment has a capital improvement plan to address system reliability, maintain compliance with regulations, and implement various distribution system and treatment plant improvements. Water had cash and cash equivalents of \$61.0 million at March 31, 2019. Water expects to meet its remaining capital spending requirements in 2019 through 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 10 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 \$32.3 million at March 31, 2019. Wastewater expects to meet its capital spending requirements in 2019 through a combination of cash flows from operations, as well as from balances remaining from issuance of the Series 2017A State Revolving Fund bonds (\$14.9 million; recorded in bond restricted funds), and its line of credit. See Note 9 – Wastewater, to the condensed combined financial statements, for a discussion of regulatory matters affecting the liquidity and capital resources of the Wastewater business segment.

Resources' capital spending projection for 2019 includes activities at Citizens South Madison, Westfield Gas, Westfield Water, and Westfield Wastewater. Resources expects to meet its capital spending requirements in 2019 through a combination of cash flows from operations and its lines of credit.

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

## Condensed Combined Statements of Financial Position (Unaudited)

(In Thousands)

	At March 31, 2019	At September 30, 2018
<b>ASSETS</b>		
Property, plant, and equipment		
Plant in service	\$ 6,677,709	\$ 6,592,903
Accumulated depreciation	3,435,725	3,372,718
	3,241,984	3,220,185
Construction work in progress	436,514	393,977
Total property, plant, and equipment	3,678,498	3,614,162
Intangible assets, net	59,746	61,598
Investments		
Bond restricted funds	271,847	349,204
Other	22,667	22,559
Total investments	294,514	371,763
Current assets		
Cash and cash equivalents	286,968	249,923
Accounts receivable, less allowance for doubtful accounts of \$2,668 and \$2,282, respectively	102,834	74,164
Accrued utility revenue	28,521	24,324
Natural gas in storage	10,483	38,458
Materials and supplies	11,756	11,145
Other current assets	5,449	3,759
Current assets directly related to discontinued operations	1,086	1,761
Total current assets	447,097	403,534
Deferred charges	44,855	48,850
<b>TOTAL ASSETS</b>	<b>\$ 4,524,710</b>	<b>\$ 4,499,907</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization and non-current liabilities		
Retained earnings	\$ 568,303	\$ 482,529
Accumulated other comprehensive loss	(70,425)	(71,348)
Long-term debt (excluding current maturities)	3,193,310	3,214,522
Retirement benefits	115,408	121,363
Contributions in aid of construction	249,068	235,057
Other long-term liabilities	49,392	49,218
Non-current liabilities directly related to discontinued operations	21,058	22,790
Total capitalization and non-current liabilities	4,126,114	4,054,131
Current liabilities		
Current maturities of long-term debt	83,546	124,480
Short-term borrowings	50,000	56,500
Accounts payable and accrued expenses	167,150	171,718
Accrued taxes	66,463	60,530
Customer deposits	26,478	24,236
Other current liabilities	4,667	7,251
Current liabilities directly related to discontinued operations	292	1,061
Total current liabilities	398,596	445,776
Commitments and contingencies (see note 10)		
<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 4,524,710</b>	<b>\$ 4,499,907</b>

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

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

## Condensed Combined Statements of Operations and Comprehensive Income (Unaudited)

(In Thousands)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2019	2018	2019	2018
Operating revenues	\$ 258,580	\$ 262,526	\$ 483,217	\$ 495,148
Operating expenses				
Cost of goods sold	67,115	65,245	114,078	113,850
Operations and maintenance	60,921	62,551	123,936	124,551
Depreciation and amortization	29,452	39,926	70,505	79,100
Taxes	14,957	14,042	28,855	27,028
Total operating expenses	172,445	181,764	337,374	344,529
Operating income	86,135	80,762	145,843	150,619
Other income (expense), net				
Interest income	1,999	971	3,519	2,149
Non-operating post-employment benefits, net	(29)	(702)	(66)	(1,404)
Other	(602)	(640)	(776)	(188)
Total other income, net	1,368	(371)	2,677	557
Income before equity in earnings of affiliates and interest charges	87,503	80,391	148,520	151,176
Equity in losses of affiliates	(42)	(88)	(82)	(2,034)
Interest charges				
Interest on long-term debt	36,623	39,261	73,350	78,668
Other interest, including net premium amortization	(5,557)	(4,440)	(10,948)	(10,349)
Total interest charges	31,066	34,821	62,402	68,319
Income from continuing operations	56,395	45,482	86,036	80,823
Loss from discontinued operations	(167)	(794)	(262)	(1,593)
<b>Net income</b>	<b>\$ 56,228</b>	<b>\$ 44,688</b>	<b>\$ 85,774</b>	<b>\$ 79,230</b>
Retirement benefit liability changes:				
Amortization of prior service credit	(546)	(479)	(1,091)	(958)
Amortization of loss	1,032	1,927	2,064	3,854
Total retirement benefit liability changes	486	1,448	973	2,896
Unrealized (loss) gain on available-for-sale investments	417	(118)	(50)	(506)
Total other comprehensive income	903	1,330	923	2,390
<b>Total comprehensive income</b>	<b>\$ 57,131</b>	<b>\$ 46,018</b>	<b>\$ 86,697</b>	<b>\$ 81,620</b>

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

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

## Condensed Combined Statements of Cash Flows (Unaudited)

(In Thousands)

	Six Months Ended March 31,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 85,774	\$ 79,230
Depreciation and amortization	64,652	74,995
Loss on divestiture or sale/impairment of assets	-	54
Equity in losses (earnings) of affiliates, net of distributions	82	2,659
Allowance for doubtful accounts	2,500	3,282
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(35,367)	(29,830)
Natural gas in storage	27,975	26,708
Accounts payable and accrued expenses	6,535	885
Retirement benefits	(4,982)	(2,498)
Other operating activities	3,265	(15,592)
Change in net liabilities of discontinued operations	(1,825)	1,571
Net cash provided by operating activities	148,609	141,464
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction expenditures	(129,247)	(163,321)
Purchase of investment securities	(120,233)	(121,093)
Sale and maturity of investment securities	197,590	184,211
Acquisition of business, net of cash acquired	-	(3,364)
Other investing activities	(351)	2,436
Net cash used in investing activities	(52,241)	(101,131)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from bank line of credit	-	20,000
Repayment of bank line of credit	(6,500)	-
Principal payments of long-term debt and bond refunding	(523,929)	(97,593)
Proceeds from bond refunding	468,525	-
Bond issuance costs	(2,496)	(32)
Contributions in aid of construction	5,523	3,277
Other financing activities	(446)	(432)
Net cash used in financing activities	(59,323)	(74,780)
Net change in cash and cash equivalents	37,045	(34,447)
Cash and cash equivalents at beginning of fiscal year	249,923	299,632
Cash and cash equivalents at end of fiscal period	\$ 286,968	\$ 265,185
Supplemental Cash Flows Information - Interest paid	\$ 66,203	\$ 73,514
<b>Non-cash Investing and Operating Activities</b>		
Construction work-in-progress accrued at period end	\$ 37,020	\$ 33,079

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

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

## Condensed Combined Statements of Equity (Unaudited)

(In Thousands)

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>Balance at September 30, 2017</b>	<b>\$ 327,635</b>	<b>\$ (118,465)</b>	<b>\$ 209,170</b>
Comprehensive income			
Net income	79,230		79,230
Unrealized gain (loss) on available-for-sale investments		(506)	(506)
Retirement benefit liability changes		2,896	2,896
Total comprehensive income	79,230	2,390	81,620
<b>Balance at March 31, 2018</b>	<b>\$ 406,865</b>	<b>\$ (116,075)</b>	<b>\$ 290,790</b>
<b>Balance at September 30, 2018</b>	<b>\$ 482,529</b>	<b>\$ (71,348)</b>	<b>\$ 411,181</b>
Comprehensive income			
Net income	85,774	-	85,774
Unrealized gain (loss) on available-for-sale investments	-	(50)	(50)
Retirement benefit liability changes	-	973	973
Total comprehensive income	85,774	923	86,697
<b>Balance at March 31, 2019</b>	<b>\$ 568,303</b>	<b>\$ (70,425)</b>	<b>\$ 497,878</b>

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

**NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS (UNAUDITED)**

*Citizens Energy Group and Subsidiary and CWA Authority, Inc.*

**1. NATURE OF OPERATIONS AND PRESENTATION****A. Nature of Operations**

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

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

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

**B. Basis of Presentation**

The accompanying condensed combined interim financial statements are unaudited and should be read in conjunction with the combined annual financial statements, and the notes thereto, included in the Citizens Energy Group Management Discussion and Financial Report for the year ended September 30, 2018. Because of the seasonal nature of the various business segments, the results of operations for the period ended March 31, 2019 are not necessarily indicative of the results of operations to be expected for the full fiscal year.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Derivatives and Hedging**

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

**B. Fair Value Measurements**

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

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

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

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

The following table presents the financial assets measured at fair value on a recurring basis, based on the hierarchy, as of March 31, 2019 and September 30, 2018 (in thousands). There were no financial liabilities at March 31, 2019 and September 30, 2018.

<b>March 31, 2019 Fair Value Measurements Using</b>			
<u>Description</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	\$ 42,654	\$ -	\$ -
Bond restricted funds	258,834	-	-
Grantor Trust investments	15,588	-	-
Derivative assets	35	-	-
Total financial assets measured at fair value	<u>\$ 317,111</u>	<u>\$ -</u>	<u>\$ -</u>
<b>September 30, 2018 Fair Value Measurements Using</b>			
<u>Description</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	\$ 42,243	\$ -	\$ -
Bond restricted funds	336,191	-	-
Grantor Trust investments	15,355	-	-
Derivative assets	199	-	-
Total financial assets measured at fair value	<u>\$ 393,988</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 \$271.8 and \$349.2 million at March 31, 2019 and September 30, 2018, respectively. In accordance with fair value disclosure guidance, \$13.0 million of investments in a guaranteed investment contract are excluded in determining the fair value of bond restricted funds pursuant to ASC 825-10-50-8c at March 31, 2019 and September 30, 2018.

Included in bond restricted funds at March 31, 2019 and September 30, 2018 are \$14.9 million and \$67.5 million, respectively, of proceeds from CWA's First Lien Wastewater Revenue Bonds, Series 2017A which are held by the Indiana Finance Authority (IFA) until certain conditions for disbursement are met. Such funds are invested in money market funds together with additional amounts committed to other participants in the IFA's Wastewater Revolving Loan Program due to the rapid disbursement of such proceeds by the IFA to such participants. Gross deposits to the bond restricted fund investments during the first six months of fiscal years 2019 and 2018 were \$117.6 million and \$119.3 million, respectively.

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

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

Management has estimated the fair value of the outstanding debt securities based on the coupons of the outstanding bonds and the current market yields. These are Level 2 fair value measurements. Management established the corresponding price to the call date as well as the price to maturity. The fair value was determined based on the lower of these two prices. At March 31, 2019 and September 30, 2018, the carrying value of outstanding debt approximates fair value.

Customers' advances for construction have a carrying value at March 31, 2019 for Water, Wastewater, and Resources of \$13.5 million, \$3.9 million, and \$3.7 million, respectively, versus the carrying values at September 30, 2018 for Water, Wastewater, and Resources of \$13.4 million, \$2.9 million, and \$4.0 million, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2029 and amounts not paid by the respective contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

### C. Comprehensive Income (Loss)

Comprehensive income (loss) is primarily a measure of all changes in equity of an enterprise which result from the transactions or other economic events during the period. This information is reported in the Condensed Combined Statements of Comprehensive Income. Citizens' components of accumulated other comprehensive (loss) income (AOCI) include the impact of pension and other post-employment benefits and mark to market valuation adjustments for available for sale investments. The following table presents changes in accumulated other comprehensive (loss) income by component for the six months ended March 31, 2019 (in thousands):

	Pension Plan	Other Postemployment Benefits	Other	Total
Accumulated other comprehensive (loss) income at September 30, 2018	\$ (78,191)	\$ 7,056	\$ (213)	\$ (71,348)
Amounts reclassified from accumulated other comprehensive income (loss)	1,871	(898)	(50)	923
Accumulated other comprehensive (loss) income at March 31, 2019	<u>\$ (76,320)</u>	<u>\$ 6,158</u>	<u>\$ (263)</u>	<u>\$ (70,425)</u>

### D. Investment in Unconsolidated Affiliates

Unconsolidated affiliates at March 31, 2019 include ProLiance Holdings, LLC (ProLiance), a jointly-owned affiliate of Resources (39%) and Vectren Energy Marketing & Services, Inc., (61%), which is accounted for under the equity method. Investment in unconsolidated affiliates is presented as part of "Investments, Other" in the condensed combined statements of financial position at March 31, 2019 and September 30, 2018.

### E. New Accounting Guidance

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

### F. Recently Adopted Accounting Guidance

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

new guidance. Alternative revenue programs are excluded from the scope of this guidance and are accounted for under other relevant accounting guidance.

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

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

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (ASC 715), which revises how employers sponsoring defined benefit pension and other post-employment plans present the net periodic benefit cost in their income statement. ASC 715 requires the service cost component of net periodic benefit costs to be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period and the other components of net periodic benefit costs to be presented separately outside of operating income. The guidance also allows only the service cost component to be eligible for capitalization. Amendments are to be applied retrospectively for presentation of costs and prospectively for capitalization of service costs. The guidance allows a practical expedient which permits use of previously disclosed service costs and other costs from the pension and other post-retirement benefit plan disclosure in the comparative periods as appropriate estimates when retrospectively changing the presentation of these costs in the statements of operations. The Company adopted the standard on October 1, 2018 and elected the practical expedient available under the transition guidance. The presentation changes required for net periodic benefit costs did not impact previously reported net income; however, reclassification of the other components of net periodic benefits cost resulted in a decrease in "Operations and maintenance" expense and an increase in "Non-operating post-employment benefits, net" of \$0.7 million and \$1.4 million for the three and six months ended March 31, 2018, respectively.

#### **G. Change in Accounting Estimate**

Pursuant to the joint depreciation case settlement approved by the IURC (see Note 9), the Company changed depreciation rates for Gas, Citizens Thermal Steam, Water, and Wastewater. The change in depreciation rates is considered a change in accounting estimate and has been applied prospectively effective January 1, 2019. For the three months ended March 31, 2019, the effect of the change was a decrease in depreciation and amortization expense of \$12.2 million. The impact of the change on each business unit's results (in millions) for the three months ended March 31, 2019 and estimated impact for fiscal year 2019 is depicted below:

	Three Months Ended March 31, 2019	Estimated Fiscal Year 2019 Impact
Gas	\$ 2.0	\$ 6.0
Steam	0.1	0.3
Water	4.3	12.9
Wastewater	5.8	17.4
Total	<u>\$ 12.2</u>	<u>\$ 36.6</u>

### 3. LONG-TERM DEBT

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

	(In Thousands)					
	March 31, 2019			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
<b><u>Gas</u></b>						
Gas Utility Distribution System Series 2008C, Second Lien Revenue Refunding Bonds, 5.25%, due 2019 to 2021	\$ 27,085	\$ 14,950	\$ 450	\$ 27,085	\$ 14,950	\$ 653
Gas Utility Distribution System Series 2010A, Second Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2024	59,495	480	1,225	59,495	480	1,353
Gas Utility Distribution System Series 2013A, Second Lien Revenue Refunding Bonds, 4.125% to 5.250%, due 2027 to 2030	54,465	-	1,189	54,465	-	1,234
Gas Utility Distribution System Series 2017A, Second Lien Revenue Refunding Bonds, 5.00%, due 2025 to 2027	49,825	-	7,454	49,825	-	7,910
Subtotal Gas Long-Term Debt	190,870	15,430	10,318	190,870	15,430	11,150
<b><u>Thermal</u></b>						
Thermal Energy System Series 2010A, First Lien Revenue Refunding Bonds, 4.00%, due 2019 to 2020	530	510	3	1,040	490	5
Thermal Energy System Series 2010B, First Lien Revenue Refunding Bonds, 5.00%, due 2019 to 2021	14,310	8,390	636	22,700	7,950	866
Thermal Energy System Series 2013A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2019 to 2033	6,735	340	54	7,075	330	59
Thermal Energy System Series 2014A, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2034	29,495	1,300	2,638	30,795	1,255	2,774
Thermal Energy System Series 2016A, First Lien Revenue Refunding Bonds, 5.00%, due 2021 to 2029	50,410	-	6,815	50,410	-	7,458
Subtotal Thermal Long-Term Debt	101,480	10,540	10,146	112,020	10,025	11,162

	(In Thousands)					
	March 31, 2019			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
<b><u>Water</u></b>						
Water Utility Series 2011C (ILPIBB 2006A)*, First Lien Net Revenue Bonds, 5.50%, due 2019 to 2022	33,170	7,845	(33)	37,090	7,465	(39)
Water Utility Series 2011D (ILPIBB 2007B)*, First Lien Net Revenue Bonds, 5.25% to 5.50%, due 2022 to 2025	70,410	-	(57)	70,410	-	(61)
Water Utility Series 2011F (ILPIBB 2009A)*, First Lien Net Revenue Bonds	-	-	-	410,385	5,160	(364)
Water Utility Series 2011G (ILPIBB 2011E)*, First Lien Net Revenue Bonds, 4.50% to 5.125%, due 2020 to 2041	48,930	1,315	(41)	50,245	1,275	(45)
Water Utility Series 2014A, First Lien Net Revenue Bonds, 4.00% to 5.00%, due 2019 to 2044	24,700	530	1,464	25,230	510	1,489
Water Utility Series 2014B, Second Lien Revenue Refunding Bonds, 2.95%, due 2022	43,595	-	(147)	43,595	-	(167)
Water Utility Series 2016A, First Lien Revenue Bonds, 3.50% to 5.00%, due 2019 to 2046	65,605	1,180	12,006	66,785	1,140	12,266
Water Utility Series 2016B, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2038	211,045	5,850	33,149	216,895	3,000	34,374
Water Utility Series 2018A, First Lien Refunding Revenue Bonds, 3.50% to 5.00%, due 2019 to 2038	359,170	1,975	49,324	-	-	-
Subtotal Water Long-Term Debt	856,625	18,695	95,665	920,635	18,550	47,453
<b><u>Wastewater</u></b>						
CWA Wastewater Utility Series 2011A, First Lien Revenue Bonds, 5.00% to 5.25%, due 2019 to 2041	586,600	14,160	26,483	600,760	13,610	27,241
CWA Wastewater Utility Series 2011B, Second Lien Revenue Bonds, 5.00% to 5.25%, due 2019 to 2041	237,245	5,775	4,065	243,020	5,500	4,200

	(In Thousands)					
	March 31, 2019			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
CWA Wastewater Utility Series 2012A, First Lien Revenue Bonds, 2.75% to 5.00%, due 2019 to 2042	170,485	4,025	14,087	174,510	3,835	14,560
CWA Wastewater Utility Series 2014A, First Lien Revenue Bonds, 4.25% to 5.00%, due 2019 to 2044	217,120	4,340	18,366	221,460	4,135	18,857
CWA Wastewater Utility Series 2015A, First Lien Revenue Bonds, 3.25% to 5.00%, due 2019 to 2045	148,240	2,815	20,261	151,055	2,685	20,749
CWA Wastewater Utility Series 2016A, First Lien Revenue Bonds 4.00% to 5.00%, due 2019 to 2046	184,180	3,130	35,932	187,310	3,010	36,708
CWA Wastewater Utility Series 2016B, 2 <sup>nd</sup> Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2019 to 2046	41,100	840	2,152	41,940	815	2,248
CWA Wastewater Series 2016C, First Lien Revenue Bonds (SRF), 2.00%, due 2019 to 2036	11,035	540	(81)	11,035	540	(85)
CWA Wastewater Series 2017A, First Lien Revenue Bonds (SRF), 3.53%, due 2019 to 2047	156,927	3,256	(76)	156,927	3,256	(78)
Subtotal Wastewater Long-Term Debt	1,752,932	38,881	121,189	1,788,017	37,386	124,400
<b>Resources</b>						
Citizens Westfield Utilities Series 2014A, Revenue Bonds, 90% of 3-month LIBOR plus 2.674%, due 2019	-	-	-	9,000**	19,454	(138)
Citizens Westfield Water Series 2014A, Revenue Bonds, 90% of 1-month LIBOR plus 1.945%, due 2019	-	-	-	-	8,365	(17)
Citizens Westfield Wastewater Series 2014A, Revenue Bonds, 90% of 1-month LIBOR plus 1.945%, due 2019	-	-	-	-	15,270	(30)
Citizens Westfield Utilities Series 2018A, Refunding Revenue Bonds, 80% of 3-month LIBOR plus 1.90%, due 2023	9,000	-	(116)	-	-	-

	(In Thousands)					
	March 31, 2019			September 30, 2018		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Citizens Westfield Water Series 2019A, Revenue Bonds, 4.00%, due 2048	20,000	-	(77)	-	-	-
Citizens Westfield Wastewater Series 2019A, Revenue Bonds, 5.00%, due 2048	22,660	-	2,618	-	-	-
Subtotal Resources Long-Term Debt	51,660	-	2,425	9,000	43,089	(185)
Total Long-Term Debt	<u>\$ 2,953,567</u>	<u>\$ 83,546</u>	<u>\$ 239,743</u>	<u>\$3,020,542</u>	<u>\$ 124,480</u>	<u>\$ 193,980</u>

\* Indianapolis Local Public Improvement Bond Bank (ILPIBB)

\*\* Refinanced \$9 million of Series 2014A Revenue Bonds; see below.

### Recent Debt Transaction Activity

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

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

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

On February 13, 2019, Citizens Westfield Water issued \$20.0 million of Water Utility Revenue Bonds, Series 2019A. The 2019A bonds were issued at a premium of \$0.1 million, have a coupon rate of 4.00%, and mature on October 1, 2048. The bonds provided funds for capital spending requirements and also refunded the Citizens Westfield Water Series 2014A Revenue Bonds and the outstanding balance on Westfield Water's line of credit in their entirety.

On February 13, 2019, Citizens Westfield Wastewater issued \$22.7 million of Wastewater Utility Revenue Bonds, Series 2019A. The 2019A bonds were issued at a premium of \$2.8 million, have a coupon rate of 5.00%, and mature on October 1, 2048. The bonds provided funds for capital spending requirements and also refunded the Citizens Westfield Wastewater Series 2014A Revenue Bonds and the outstanding balance on Westfield Wastewater's line of credit in their entirety.

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

##### Gas

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

##### Thermal

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

##### Water

On November 2, 2017 Water closed on a reduction of the capital expenditure line of credit from \$100.0 million to \$50.0 million and extended the maturity date from December 9, 2017 to November 2, 2020. The line of credit is provided by PNC. Interest rates are based on the Standard & Poor's and Fitch ratings of the 2014B Second Lien Water Utility Net Revenue Bonds; at the time of close, the line has an interest rate of 83 percent of LIBOR plus 0.70 percent with a commitment fee of 0.15 percent. At March 31, 2019 and September 30, 2018, no amounts were outstanding.

In April 2019, the \$30.0 million working capital line of credit with BMO Harris Bank NA expired and was not renewed. There were no draws on the facility during 2019 or 2018.

##### Wastewater

On September 28, 2017 CWA closed on a reduction of the capital expenditure line of credit from \$145.0 million to \$100.0 million and extended the maturity date from September 30, 2017 to September 30, 2020. The line of credit is with a syndicate of JP Morgan Chase and Wells Fargo, each with equal participation and with JP Morgan Chase acting as Administrative Agent, at an interest rate of 87.8 percent of LIBOR plus 0.84 percent and a commitment fee of 0.22 percent. At March 31, 2019 and September 30, 2018, \$20.0 million was outstanding on the line of credit, classified as non-current liabilities in the Condensed Combined Statements of Financial Position in the line item labeled, "Other long-term liabilities".

##### Resources

Westfield Gas, Westfield Water, and Westfield Wastewater have established lines of credit with terms and conditions as outlined in the table below. On March 14, 2019, Westfield Water and Westfield Wastewater each closed on \$5.0 million revolving credit facilities, replacing existing \$10.3 million and \$11.0 million revolving credit agreements, respectively, both which matured on March 21, 2019. Outstanding balances for the Westfield Water and Westfield Wastewater lines of credit were repaid in February 2019 using proceeds from the Series 2019A Utility Revenue Bonds (see Note 3).

Entity	Credit Capacity	Maturity Date	Interest Rate	Commitment Fee	Amount Outstanding at (in millions)	
					March 31, 2019	September 30, 2018
Westfield Gas	\$4.0 million	March 30, 2021	LIBOR + 1.65%	0.150%	\$ 1.7	\$ 1.7
Westfield Water	5.0 million	March 14, 2022	LIBOR + .90%	0.100%	-	3.5
Westfield Wastewater	5.0 million	March 14, 2022	LIBOR + .90%	0.100%	-	3.0

Outstanding borrowings with maturities of twelve months or less from the balance sheet date are presented as current liabilities in the Condensed Combined Statements of Financial Position in the line item labeled, "Short-term borrowings". Outstanding borrowings with maturities greater than twelve months from the balance sheet date are classified as non-current liabilities in the Condensed Combined Statements of Financial Position in the line item labeled, "Other long-term liabilities".

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

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

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

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

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

### Alternative Revenue Programs

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

Disaggregated Revenues

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

Three Months Ended March 31, 2019								
	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Intercompany Eliminations	Total
Residential	\$ 80,163	\$ -	\$ -	\$ 25,930	\$ 33,707	\$ 5,302	\$ -	\$ 145,102
Commercial	30,447	12,133	4,341	15,871	20,332	1,902	(738)	84,288
Industrial	3,100	8,332	81	2,386	11,170	43	(648)	24,464
Other	971	80	-	2,050	3,860	1,772	-	8,733
Revenues - Contracts w/Customers	114,681	20,545	4,422	46,237	69,069	9,019	(1,386)	262,587
Alternative Revenue Programs	-	-	-	-	(4,000)	(7)	-	(4,007)
Gross Operating Revenues	\$ 114,681	\$ 20,545	\$ 4,422	\$ 46,237	\$ 65,069	\$ 9,012	\$ (1,386)	\$ 258,580

Three Months Ended March 31, 2018								
	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Intercompany Eliminations	Total
Residential	\$ 76,764	\$ -	\$ -	\$ 26,115	\$ 33,880	\$ 4,850	\$ -	\$ 141,609
Commercial	29,534	12,959	4,590	16,553	21,954	2,545	(1,729)	86,406
Industrial	3,440	9,407	128	2,377	10,419	37	(629)	25,179
Other	1,364	16	-	2,003	2,489	2,482	-	8,354
Revenues - Contracts w/Customers	111,102	22,382	4,718	47,048	68,742	9,914	(2,358)	261,548
Alternative Revenue Programs	-	-	-	-	911	67	-	978
Gross Operating Revenues	\$ 111,102	\$ 22,382	\$ 4,718	\$ 47,048	\$ 69,653	\$ 9,981	\$ (2,358)	\$ 262,526

Six Months Ended March 31, 2019								
	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Intercompany Eliminations	Total
Residential	\$ 136,468	\$ -	\$ -	\$ 52,415	\$ 66,864	\$ 10,269	\$ -	\$ 266,016
Commercial	51,533	22,444	10,096	32,497	42,490	3,532	(2,966)	159,626
Industrial	5,879	15,209	163	4,781	21,459	69	(1,209)	46,351
Other	1,764	216	-	4,380	6,149	3,561	-	16,070
Revenues - Contracts w/Customers	195,644	37,869	10,259	94,073	136,962	17,431	(4,175)	488,063
Alternative Revenue Programs	-	-	-	-	(4,810)	(36)	-	(4,846)
Gross Operating Revenues	\$ 195,644	\$ 37,869	\$ 10,259	\$ 94,073	\$ 132,152	\$ 17,395	\$ (4,175)	\$ 483,217

Six Months Ended March 31, 2018								
	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Intercompany Eliminations	Total
Residential	\$ 133,434	\$ -	\$ -	\$ 52,838	\$ 66,790	\$ 9,691	\$ -	\$ 262,753
Commercial	50,722	24,090	10,714	33,341	43,706	4,352	(4,111)	162,814
Industrial	6,415	17,438	256	4,775	18,684	63	(999)	46,632
Other	2,226	25	-	4,556	6,112	5,179	-	18,098
Revenues - Contracts w/Customers	192,797	41,553	10,970	95,510	135,292	19,285	(5,110)	490,297
Alternative Revenue Programs	-	-	-	-	4,813	38	-	4,851
Gross Operating Revenues	\$ 192,797	\$ 41,553	\$ 10,970	\$ 95,510	\$ 140,105	\$ 19,323	\$ (5,110)	\$ 495,148

Accounts Receivable and Unbilled Revenue

Amounts due from customers are reflected on the Condensed Combined Statements of Financial Position in the line items labeled "Accounts receivable" for revenue billed to customers and "Accrued utility revenue" which represent unbilled customer revenues. Unbilled revenues relate to a portion of a customer's consumption of utility services from the date of the last cycle billing date through the last day of the month (balance sheet date). Factors taken into consideration when estimating unbilled revenue include historical usage and customer rates. The Company had no contract assets or liabilities during the periods presented. Additionally, the Company has not incurred any significant costs to obtain or fulfill contracts. The opening and closing balances for customer accounts receivable and accrued utility revenue for the six months ended March 31, 2019 and 2018 are presented in the table below.

Accounts Receivable, net							
<u>\$ Thousands</u>	<u>Gas</u>	<u>Steam</u>	<u>Chilled Water</u>	<u>Water</u>	<u>Wastewater</u>	<u>Resources</u>	<u>Total</u>
Balance at March 31, 2019	\$ 44,546	\$ 6,902	\$ 1,609	\$ 19,874	\$ 26,625	\$ 3,278	\$ 102,834
Balance at September 30, 2018	11,621	4,784	4,584	23,451	25,696	4,028	74,164
Increase (Decrease)	\$ 32,925	\$ 2,118	\$ (2,975)	\$ (3,577)	\$ 929	\$ (750)	\$ 28,670
Balance at March 31, 2018	\$ 37,789	\$ 6,832	\$ 1,676	\$ 16,476	\$ 25,105	\$ 3,452	\$ 91,330
Balance at September 30, 2017	10,132	5,220	4,404	21,076	25,552	4,116	70,500
Increase (Decrease)	\$ 27,657	\$ 1,612	\$ (2,728)	\$ (4,600)	\$ (447)	\$ (664)	\$ 20,830

Accrued Utility Revenue							
<u>\$ Thousands</u>	<u>Gas</u>	<u>Steam</u>	<u>Chilled Water</u>	<u>Water</u>	<u>Wastewater</u>	<u>Resources</u>	<u>Total</u>
Balance at March 31, 2019	\$ 10,126	\$ -	\$ -	\$ 6,507	\$ 11,472	\$ 416	\$ 28,521
Balance at September 30, 2018	4,068	-	-	8,403	11,381	472	24,324
Increase (Decrease)	\$ 6,058	\$ -	\$ -	\$ (1,896)	\$ 91	\$ (56)	\$ 4,197
Balance at March 31, 2018	\$ 11,539	\$ -	\$ -	\$ 6,657	\$ 10,737	\$ 525	\$ 29,458
Balance at September 30, 2017	3,763	-	-	8,218	11,004	416	23,401
Increase (Decrease)	\$ 7,776	\$ -	\$ -	\$ (1,561)	\$ (267)	\$ 109	\$ 6,057

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

**6. FINANCIAL SEGMENT INFORMATION**

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

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

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

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

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

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

Resources conducts for-profit business activities to ultimately provide enhanced benefits to Citizens' beneficiaries. Resources includes affiliate joint venture investments of \$0.4 million at March 31, 2019 and September 30, 2018. Resources also includes several wholly-owned subsidiaries under CESCO, which serves as a holding company for several LLC subsidiaries. CESCO subsidiaries include: Citizens Westfield Utilities, which is the holding company for the three utilities serving Westfield (Westfield Gas, Westfield Water, and Westfield Wastewater); CESCO Diversified Business Enterprises, which is the holding company for Citizens Resources Production LLC, an oil producer; and Citizens South Madison (CSM), a small unregulated water utility. In addition, Resources provides stormwater management services to the City of Indianapolis through Citizens Energy Management Company, LLC. As of December 2017, Resources also owned Heartland Gas Pipeline, LLC, which provided gas transportation and storage services to Gas.

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

**Segment Footnote - Condensed Combined Statement of Financial Position***Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**At March 31, 2019*

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Elimin- ations	Total
<b>Assets</b>									
Property, plant, and equipment	\$ 311,501	\$ 73,759	\$ 63,627	\$ 1,111,767	\$ 1,911,133	\$ 182,982	\$ 23,729	\$ -	<b>\$ 3,678,498</b>
Intangibles	-	15,677	44,069	-	-	-	-	-	<b>59,746</b>
Investments	14,630	8,656	3,426	70,273	192,479	4,634	416	-	<b>294,514</b>
Cash and cash equivalents	105,645	10,118	24,299	60,997	32,279	31,227	22,403	-	<b>286,968</b>
Other current assets	73,376	11,682	3,145	33,783	47,172	4,576	(7,036)	(6,569)	<b>160,129</b>
Deferred charges and other non-current assets	7,848	2,578	129	20,159	8,491	1,250	4,400	-	<b>44,855</b>
Total assets	<b>\$ 513,000</b>	<b>\$ 122,470</b>	<b>\$ 138,695</b>	<b>\$ 1,296,979</b>	<b>\$ 2,191,554</b>	<b>\$ 224,669</b>	<b>\$ 43,912</b>	<b>\$ (6,569)</b>	<b>\$ 4,524,710</b>
<b>Capitalization and Liabilities</b>									
Equity	\$ 150,683	\$ 27,332	\$ 91,763	\$ 101,440	\$ 54,828	\$ 105,452	\$ (33,620)	\$ -	<b>\$ 497,878</b>
Long-term debt	201,189	74,317	37,309	952,290	1,874,121	54,084	-	-	<b>3,193,310</b>
Retirement benefit and Other long-term liabilities	32,162	6,265	1,507	168,186	106,286	58,680	61,840	-	<b>434,926</b>
Current mat. of long-term debt	15,430	5,792	4,748	18,695	38,881	-	-	-	<b>83,546</b>
Short-term borrowings	50,000	-	-	-	-	-	-	-	<b>50,000</b>
Current liabilities	63,536	8,764	3,368	56,368	117,438	6,453	15,692	(6,569)	<b>265,050</b>
Total capitalization and liabilities	<b>\$ 513,000</b>	<b>\$ 122,470</b>	<b>\$ 138,695</b>	<b>\$ 1,296,979</b>	<b>\$ 2,191,554</b>	<b>\$ 224,669</b>	<b>\$ 43,912</b>	<b>\$ (6,569)</b>	<b>\$ 4,524,710</b>

**Segment Footnote - Condensed Combined Statement of Financial Position***Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**At September 30, 2018*

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

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

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 113,913	\$ 20,469	\$ 4,422	\$ 46,071	\$ 64,866	\$ 8,839	\$ -	\$ -	\$ 258,580
Intercompany revenues	768	76	-	166	203	173	-	(1,386)	-
Gross operating revenues	114,681	20,545	4,422	46,237	65,069	9,012	-	(1,386)	258,580
Operating expenses:									
Cost of goods sold	56,325	9,505	1,196	-	-	985	-	(896)	67,115
Operations and maintenance	15,139	4,035	2,040	18,285	18,555	3,341	-	(474)	60,921
Depreciation and amortization	4,376	1,251	1,280	6,651	14,755	1,139	-	-	29,452
Taxes	2,921	480	372	3,620	7,002	562	-	-	14,957
Total operating expenses	78,761	15,271	4,888	28,556	40,312	6,027	-	(1,370)	172,445
Operating income (loss)	35,920	5,274	(466)	17,681	24,757	2,985	-	(16)	86,135
Other income (expense), net:									
Interest income	223	39	62	715	911	49	4	(4)	1,999
Non-operating post-employment benefits, net	(74)	(18)	3	23	32	5	-	-	(29)
Other	12	-	-	94	10	53	(771)	-	(602)
Total other income (expense), net	161	21	65	832	953	107	(767)	(4)	1,368
Income (loss) before equity in losses of affiliates and interest charges	36,081	5,295	(401)	18,513	25,710	3,092	(767)	(20)	87,503
Equity in losses of affiliates	-	-	-	-	-	(42)	-	-	(42)
Interest charges:									
Interest on long-term debt	2,613	886	479	10,572	21,604	469	4	(4)	36,623
Other interest, including net discount (premium) amortization	204	(174)	(232)	(1,341)	(4,093)	75	4	-	(5,557)
Total interest charges	2,817	712	247	9,231	17,511	544	8	(4)	31,066
Income (loss) from continuing operations	33,264	4,583	(648)	9,282	8,199	2,506	(775)	(16)	56,395
Loss from discontinued operations	-	-	-	-	-	-	(183)	16	(167)
Net income (loss)	\$ 33,264	\$ 4,583	\$ (648)	\$ 9,282	\$ 8,199	\$ 2,506	\$ (958)	\$ -	\$ 56,228

**Segment Footnote - Condensed Combined Statement of Operations***Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Three Months Ended March 31, 2018*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 110,163	\$ 22,256	\$ 4,718	\$ 46,887	\$ 69,443	\$ 9,059	\$ -	\$ -	\$ 262,526
Intercompany revenues	939	126	-	161	210	922	-	(2,358)	-
Gross operating revenues	111,102	22,382	4,718	47,048	69,653	9,981	-	(2,358)	262,526
Operating expenses:									
Cost of goods sold	53,864	11,083	1,250	-	-	824	-	(1,776)	65,245
Operations and maintenance	15,552	4,483	1,824	19,300	17,758	4,358	(163)	(561)	62,551
Depreciation and amortization	5,930	1,280	1,298	10,445	19,534	1,439	-	-	39,926
Taxes	2,763	460	379	3,426	6,412	502	100	-	14,042
Total operating expenses	78,109	17,306	4,751	33,171	43,704	7,123	(63)	(2,337)	181,764
Operating income (loss)	32,993	5,076	(33)	13,877	25,949	2,858	63	(21)	80,762
Other income (expense), net:									
Interest income	65	20	37	118	594	35	108	(6)	971
Non-operating post-employment benefits, net	(306)	(74)	(15)	(105)	(10)	-	(192)	-	(702)
Other	-	-	-	26	81	12	(759)	-	(640)
Total other income (expense), net	(241)	(54)	22	39	665	47	(843)	(6)	(371)
Income (loss) before equity in earnings of affiliates and interest charges	32,752	5,022	(11)	13,916	26,614	2,905	(780)	(27)	80,391
Equity in losses of affiliates	-	-	-	-	-	(88)	-	-	(88)
Interest charges:									
Interest on long-term debt	2,895	970	534	12,100	22,024	738	6	(6)	39,261
Other interest, including net (premium) discount amortization	240	(172)	(245)	(510)	(3,932)	173	6	-	(4,440)
Total interest charges	3,135	798	289	11,590	18,092	911	12	(6)	34,821
Income (loss) from continuing operations	29,617	4,224	(300)	2,326	8,522	1,906	(792)	(21)	45,482
Loss from discontinued operations	-	-	-	-	-	-	(815)	21	(794)
Net income (loss)	\$ 29,617	\$ 4,224	\$ (300)	\$ 2,326	\$ 8,522	\$ 1,906	\$ (1,607)	\$ -	\$ 44,688

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

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 194,165	\$ 36,502	\$ 10,259	\$ 93,617	\$ 131,626	\$ 17,048	\$ -	\$ -	\$ 483,217
Intercompany revenues	1,479	1,367	-	456	526	347	-	(4,175)	-
Gross operating revenues	195,644	37,869	10,259	94,073	132,152	17,395	-	(4,175)	483,217
Operating expenses:									
Cost of goods sold	95,089	17,481	3,020	-	-	1,599	-	(3,111)	114,078
Operations and maintenance	31,122	9,169	3,930	36,481	37,342	6,922	-	(1,030)	123,936
Depreciation and amortization	10,431	2,589	2,593	17,431	35,022	2,439	-	-	70,505
Taxes	5,353	851	817	7,256	13,457	1,121	-	-	28,855
Total operating expenses	141,995	30,090	10,360	61,168	85,821	12,081	-	(4,141)	337,374
Operating income (loss)	53,649	7,779	(101)	32,905	46,331	5,314	-	(34)	145,843
Other income (expense), net:									
Interest income	363	73	127	1,060	1,805	91	10	(10)	3,519
Non-operating post-employment benefits, net	(147)	(37)	5	39	64	10	-	-	(66)
Other	75	-	-	252	97	11	(1,211)	-	(776)
Total other income (expense), net	291	36	132	1,351	1,966	112	(1,201)	(10)	2,677
Income (loss) before equity in losses of affiliates and interest charges	53,940	7,815	31	34,256	48,297	5,426	(1,201)	(44)	148,520
Equity in losses of affiliates	-	-	-	-	-	(82)	-	-	(82)
Interest charges:									
Interest on long-term debt	5,171	1,813	957	21,472	43,163	774	10	(10)	73,350
Other interest, including net discount (premium) amortization	400	(342)	(460)	(2,732)	(8,216)	392	10	-	(10,948)
Total interest charges	5,571	1,471	497	18,740	34,947	1,166	20	(10)	62,402
Income (loss) from continuing operations	48,369	6,344	(466)	15,516	13,350	4,178	(1,221)	(34)	86,036
Loss from discontinued operations	-	-	-	-	-	-	(296)	34	(262)
Net income (loss)	\$ 48,369	\$ 6,344	\$ (466)	\$ 15,516	\$ 13,350	\$ 4,178	\$ (1,517)	\$ -	\$ 85,774

**Segment Footnote - Condensed Combined Statement of Operations***Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Six Months Ended March 31, 2018*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 191,317	\$ 40,143	\$ 10,970	\$ 95,132	\$ 139,650	\$ 17,936	\$ -	\$ -	\$ 495,148
Intercompany revenues	1,480	1,410	-	378	455	1,387	-	(5,110)	-
Gross operating revenues	192,797	41,553	10,970	95,510	140,105	19,323	-	(5,110)	495,148
Operating expenses:									
Cost of goods sold	91,939	21,123	3,442	-	-	1,400	-	(4,054)	113,850
Operations and maintenance	31,084	9,019	3,872	37,161	36,545	8,315	(431)	(1,014)	124,551
Depreciation and amortization	11,885	2,572	2,848	20,988	38,007	2,800	-	-	79,100
Taxes	5,146	838	833	6,919	12,112	986	194	-	27,028
Total operating expenses	140,054	33,552	10,995	65,068	86,664	13,501	(237)	(5,068)	344,529
Operating income (loss)	52,743	8,001	(25)	30,442	53,441	5,822	237	(42)	150,619
Other income (expense), net:									
Interest income	108	36	56	603	1,135	102	135	(26)	2,149
Non-operating post-employment benefits, net	(612)	(148)	(30)	(210)	(20)	-	(384)	-	(1,404)
Other	-	-	-	534	83	52	(857)	-	(188)
Total other income (expense), net	(504)	(112)	26	927	1,198	154	(1,106)	(26)	557
Income (loss) before equity in earnings of affiliates and interest charges	52,239	7,889	1	31,369	54,639	5,976	(869)	(68)	151,176
Equity in losses of affiliates	-	-	-	-	-	(2,034)	-	-	(2,034)
Interest charges:									
Interest on long-term debt	5,791	1,941	1,069	24,357	44,189	1,321	26	(26)	78,668
Other interest, including net (premium) discount amortization	465	(342)	(490)	(966)	(9,365)	337	12	-	(10,349)
Total interest charges	6,256	1,599	579	23,391	34,824	1,658	38	(26)	68,319
Income (loss) from continuing operations	45,983	6,290	(578)	7,978	19,815	2,284	(907)	(42)	80,823
Loss from discontinued operations	-	-	-	-	-	-	(1,635)	42	(1,593)
Net income (loss)	\$ 45,983	\$ 6,290	\$ (578)	\$ 7,978	\$ 19,815	\$ 2,284	\$ (2,542)	\$ -	\$ 79,230

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

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Total
Net cash provided by (used in) operating activities	\$ 54,493	\$ 3,601	\$ 2,724	\$ 34,722	\$ 48,207	\$ 6,761	\$ (1,899)	\$ 148,609
Investing Activities:								
Construction expenditures	(14,264)	(1,781)	(1,702)	(18,410)	(82,717)	(5,660)	(4,713)	(129,247)
Purchase of investment securities	(13,059)	(4,782)	(3,354)	(34,218)	(64,562)	(258)	-	(120,233)
Sale and maturity of investment securities	5,227	7,467	5,568	48,616	130,712	-	-	197,590
Other investing activities	163	-	-	(370)	(257)	(1)	114	(351)
Net cash provided by (used in) investing activities	(21,933)	904	512	(4,382)	(16,824)	(5,919)	(4,599)	(52,241)
Financing Activities:								
Repayment of bank line of credit	-	-	-	-	-	(6,500)	-	(6,500)
Principal payments of long-term debt and bond refunding	-	(5,526)	(4,499)	(428,225)	(33,590)	(52,089)	-	(523,929)
Proceeds from bond refunding	-	-	-	413,987	-	54,538	-	468,525
Bond issuance costs	-	-	-	(2,029)	-	(467)	-	(2,496)
Contributions in aid of construction	-	-	-	2,890	1,983	650	-	5,523
Cash contributions from (to) affiliates and subsidiaries	(2,000)	-	-	-	-	(1,700)	3,700	-
Other financing activities	(446)	-	-	-	-	-	-	(446)
Net cash provided by (used in) financing activities	(2,446)	(5,526)	(4,499)	(13,377)	(31,607)	(5,568)	3,700	(59,323)
Net change in cash and cash equivalents	30,114	(1,021)	(1,263)	16,963	(224)	(4,726)	(2,798)	37,045
Cash and cash equivalents at beginning of period	75,531	11,139	25,562	44,034	32,503	35,953	25,201	249,923
Cash and cash equivalents at end of period	\$ 105,645	\$ 10,118	\$ 24,299	\$ 60,997	\$ 32,279	\$ 31,227	\$ 22,403	\$ 286,968

**Segment Footnote - Condensed Combined Statement of Cash Flows***Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Six Months Ended March 31, 2018*

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Total
Net cash provided by (used in) operating activities	\$ 50,215	\$ 8,919	\$ 2,302	\$ 30,034	\$ 47,929	\$ 8,584	\$ (6,519)	\$ 141,464
Investing Activities:								
Construction expenditures	(12,382)	(3,086)	(724)	(27,149)	(112,878)	(3,208)	(3,894)	(163,321)
Purchase of investment securities	(13,199)	(4,741)	(3,330)	(35,466)	(64,357)	-	-	(121,093)
Sale and maturity of investment securities	5,795	7,363	5,486	39,487	126,080	-	-	184,211
Divestiture proceeds, net of expenses	-	-	-	-	-	(3,364)	-	(3,364)
Other investing activities	(37,477)	-	(20,757)	(532)	(351)	36,535	25,018	2,436
Net cash provided by (used in) investing activities	(57,263)	(464)	(19,325)	(23,660)	(51,506)	29,963	21,124	(101,131)
Financing Activities:								
Proceeds from bank line of credit	-	-	-	-	20,000	-	-	20,000
Principal payments of long-term debt and bond refunding	-	(5,301)	(4,309)	(14,935)	(39,563)	(33,485)	-	(97,593)
Bond issuance costs	-	-	-	-	(32)	-	-	(32)
Contributions in aid of construction	-	-	-	(34)	3,476	(165)	-	3,277
Other financing activities	(432)	-	-	-	-	-	-	(432)
Net cash provided by (used in) financing activities	(432)	(5,301)	(4,309)	(14,969)	(16,119)	(33,650)	-	(74,780)
Net change in cash and cash equivalents	(7,480)	3,154	(21,332)	(8,595)	(19,696)	4,897	14,605	(34,447)
Cash and cash equivalents at beginning of period	96,379	11,450	40,448	53,196	54,263	27,595	16,301	299,632
Cash and cash equivalents at end of period	\$ 88,899	\$ 14,604	\$ 19,116	\$ 44,601	\$ 34,567	\$ 32,492	\$ 30,906	\$ 265,185

During the six months ended March 31, 2018, an \$18 million contribution was made by Chilled Water to Resources for the purposes of contributing to CWU.

## 7. ADDITIONAL FINANCIAL INFORMATION – CITIZENS WESTFIELD UTILITIES

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

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

### Condensed Consolidating Statement of Financial Position

Citizens Westfield Utilities, LLC

(In Thousands)

At March 31, 2019

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
<b>Assets</b>						
Property, plant, and equipment	\$ -	\$ 10,390	\$ 71,677	\$ 93,404	\$ -	\$ 175,471
Investments	95,478	-	-	-	(95,478)	-
Cash and cash equivalents	183	2,363	8,792	12,670	-	24,008
Other current assets	-	1,129	1,205	1,705	-	4,039
Other non-current assets	84	874	18	99	-	1,075
Total assets	\$ 95,745	\$ 14,756	\$ 81,692	\$ 107,878	\$ (95,478)	\$ 204,593
<b>Capitalization and Liabilities</b>						
Member's equity	\$ 86,665	\$ 12,207	\$ 30,414	\$ 52,857	\$ (95,478)	\$ 86,665
Long-term debt	8,884	-	19,922	25,278	-	54,084
Other long-term borrowings	-	1,700	-	-	-	1,700
Other long-term liabilities	-	5	28,640	27,444	-	56,089
Current maturities of long-term debt	-	-	-	-	-	-
Short-term borrowings	-	-	-	-	-	-
Current liabilities	196	844	2,716	2,299	-	6,055
Total capitalization and liabilities	\$ 95,745	\$ 14,756	\$ 81,692	\$ 107,878	\$ (95,478)	\$ 204,593

### Condensed Consolidating Statement of Financial Position

Citizens Westfield Utilities, LLC

(In Thousands)

At September 30, 2018

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

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

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	\$ -	\$ 2,187	\$ 1,901	\$ 3,101	\$ -	\$ 7,189
Operating expenses						
Cost of goods sold	-	986	-	-	-	986
Other operating expenses	45	306	802	1,062	-	2,215
Depreciation and amortization	-	142	302	563	-	1,007
Taxes	-	61	271	209	-	541
Total operating expenses	45	1,495	1,375	1,834	-	4,749
Total operating (loss) income	(45)	692	526	1,267	-	2,440
Other income	-	1	54	5	-	60
Equity in earnings of subsidiaries	2,098	-	-	-	(2,098)	-
Interest charges						
Interest on long-term debt	90	-	148	229	-	467
Other interest	6	18	29	23	-	76
Total interest charges	96	18	177	252	-	543
Net income	\$ 1,957	\$ 675	\$ 403	\$ 1,020	\$ (2,098)	\$ 1,957

**Condensed Consolidating Statement of Operations**  
**Citizens Westfield Utilities, LLC**  
**For the Three Months Ended March 31, 2018**  
**(In Thousands)**

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	\$ -	\$ 1,961	\$ 1,867	\$ 2,866	\$ -	\$ 6,694
Operating expenses						
Cost of goods sold	-	824	-	-	-	824
Other operating expenses	24	334	789	997	-	2,144
Depreciation and amortization	-	147	275	578	-	1,000
Taxes	-	58	210	172	-	440
Total operating expenses	24	1,363	1,274	1,747	-	4,408
Total operating income (loss)	(24)	598	593	1,119	-	2,286
Other income	-	-	45	-	-	45
Equity in earnings of subsidiaries	2,078	-	-	-	(2,078)	-
Interest charges						
Interest on long-term debt	546	-	63	115	-	724
Other interest	73	12	45	42	-	172
Total interest charges	619	12	108	157	-	896
Net income	\$ 1,435	\$ 586	\$ 530	\$ 962	\$ (2,078)	\$ 1,435

**Condensed Consolidating Statement of Operations**  
**Citizens Westfield Utilities, LLC**  
**For the Six Months Ended March 31, 2019**  
**(In Thousands)**

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	\$ -	\$ 3,638	\$ 3,940	\$ 6,133	\$ -	\$ 13,711
Operating expenses						
Cost of goods sold	-	1,600	-	-	-	1,600
Other operating expenses	196	580	1,766	2,099	-	4,641
Depreciation and amortization	-	297	619	1,171	-	2,087
Taxes	-	113	544	422	-	1,079
Total operating expenses	196	2,590	2,929	3,692	-	9,407
Total operating (loss) income	(196)	1,048	1,011	2,441	-	4,304
Other income	-	3	105	8	-	116
Equity in earnings of subsidiaries	3,814	-	-	-	(3,814)	-
Interest charges						
Interest on long-term debt	156	-	234	386	-	776
Other interest	211	35	80	67	-	393
Total interest charges	367	35	314	453	-	1,169
Net income	\$ 3,251	\$ 1,016	\$ 802	\$ 1,996	\$ (3,814)	\$ 3,251

**Condensed Consolidating Statement of Operations**  
**Citizens Westfield Utilities, LLC**  
**For the Six Months Ended March 31, 2018**  
**(In Thousands)**

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Eliminations	Total
Operating revenues	\$ -	\$ 3,318	\$ 3,947	\$ 5,784	\$ -	\$ 13,049
Operating expenses						
Cost of goods sold	-	1,400	-	-	-	1,400
Other operating expenses	200	643	1,624	1,913	-	4,380
Depreciation and amortization	-	283	559	1,154	-	1,996
Taxes	-	107	423	344	-	874
Total operating expenses	200	2,433	2,606	3,411	-	8,650
Total operating income (loss)	(200)	885	1,341	2,373	-	4,399
Other income	-	-	95	3	-	98
Equity in earnings of subsidiaries	4,197	-	-	-	(4,197)	-
Interest charges						
Interest on long-term debt	1,002	-	109	200	-	1,311
Other interest	146	23	86	82	-	337
Total interest charges	1,148	23	195	282	-	1,648
Net income	\$ 2,849	\$ 862	\$ 1,241	\$ 2,094	\$ (4,197)	\$ 2,849

**Condensed Consolidating Statement of Cash Flows****Citizens Westfield Utilities, LLC****(In Thousands)****For the Six Months Ended March 31, 2019**

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Total
Net cash provided by (used in) operating activities	\$ (464)	\$ 1,403	\$ 1,575	\$ 3,100	\$ 5,614
Investing Activities:					
Construction expenditures	-	(601)	(2,658)	(2,111)	(5,370)
Purchase of investment securities	-	-	(107)	(151)	(258)
Net cash provided by (used in) investing activities	-	(601)	(2,765)	(2,262)	(5,628)
Financing Activities:					
Repayment of bank line of credit	-	-	(3,500)	(3,000)	(6,500)
Proceeds from bond refunding	9,000	-	20,082	25,456	54,538
Principal payments of long-term debt	(28,454)	-	(8,365)	(15,270)	(52,089)
Bond issuance costs	(127)	-	(160)	(180)	(467)
Additional paid-in capital and dividends	19,820	-	(160)	(160)	19,500
Contributions in aid of construction	-	-	(123)	773	650
Net cash provided by (used in) financing activities	239	-	7,774	7,619	15,632
Net change in cash and cash equivalents	(225)	802	6,584	8,457	15,618
Cash and cash equivalents at beginning of period	408	1,561	2,208	4,213	8,390
Cash and cash equivalents at end of period	\$ 183	\$ 2,363	\$ 8,792	\$ 12,670	\$ 24,008

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

	Parent	Westfield Gas	Westfield Water	Westfield Wastewater	Total
Net cash provided by (used in) operating activities	\$ (1,389)	\$ 1,008	\$ 2,102	\$ 2,776	\$ 4,497
Investing Activities:					
Construction expenditures	-	(384)	(970)	(1,600)	(2,954)
Net cash provided by (used in) investing activities	-	(384)	(970)	(1,600)	(2,954)
Financing Activities:					
Principal payments of long-term debt	(33,152)	-	-	-	(33,152)
Additional paid-in capital and dividends	35,600	-	(550)	(550)	34,500
Contributions in aid of construction	-	-	(129)	(36)	(165)
Net cash provided by (used in) financing activities	2,448	-	(679)	(586)	1,183
Net change in cash and cash equivalents	1,059	624	453	590	2,726
Cash and cash equivalents at beginning of period	486	699	2,465	2,199	5,849
Cash and cash equivalents at end of period	\$ 1,545	\$ 1,323	\$ 2,918	\$ 2,789	\$ 8,575

## 8. DISCONTINUED OPERATIONS AND RELATED ASSET RETIREMENT OBLIGATIONS

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

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

Activity for the six months ended March 31, 2019 for the asset retirement obligation liability is as follows (in thousands):

Asset retirement obligation at September 30, 2018	\$	16,734
Accretion expense		391
Remediation liabilities settled		(1,596)
Asset retirement obligation at March 31, 2019	\$	<u>15,529</u>

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

The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) at March 31, 2019 and September 30, 2018, are as follows (in thousands):

	March 31, 2019	September 30, 2018
Current assets	<u>\$ 1,086</u>	<u>\$ 1,761</u>
Total assets	<u>\$ 1,086</u>	<u>\$ 1,761</u>
Equity (deficiency)	\$ (20,264)	\$ (22,090)
Retirement benefit and other long-term liabilities	21,058	22,790
Current liabilities	292	1,061
Total capitalization and liabilities	<u>\$ 1,086</u>	<u>\$ 1,761</u>

For the six months ended March 31, 2019 and 2018 Discontinued Operations operating expenses were \$0.3 million and \$1.6 million, respectively. Approximately \$24.7 million of cash was provided by Gas to Discontinued Operations during fiscal year 2018, and an additional \$2.0 million during the six months ended March 31, 2019, to settle a portion of the liabilities. Additional cash funding from Gas to settle liabilities may be provided to Discontinued Operations in future years.

## 9. RATE AND REGULATORY MATTERS

### Gas

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

On April 18, 2018 and May 31, 2018, Citizens Gas filed two petitions and supporting testimony requesting approval of agreements entered into under Rate 30 of its IURC approved tariff. Pursuant to the agreements, Citizens Gas would provide gas transportation service to electric generation facilities located at the same location in Indianapolis but separately owned by Indianapolis Power & Light Company ("IPL") and Indiana Municipal Power Agency ("IMPA") at negotiated rates. Based on discussions with the Office of Utility Consumer Counselor (OUCC), in November 2018, Citizens Gas amended both petitions to seek approval of the contracts as general special contracts that are not subject to the requirements of Rate 30. In January 2019, Citizens Gas and the OUCC submitted settlement agreements and supporting testimony recommending the Commission approve both contracts. On April 3, 2019, the Commission issued orders in both cases approving the settlement agreements and the contracts with IPL and IMPA.

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

### Citizens Thermal Steam

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

### Water

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

### Wastewater

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

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

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

On October 12, 2018, CWA filed a petition with the IURC requesting, among other things, a three-step increase in base rate revenues. On April 12, 2019, CWA, the OUCC and all other parties to the case submitted a settlement agreement to the Commission recommending approval of a three-step increase in base rate revenues as follows. The step one increase, which CWA anticipates would take effect in August 2019, would increase base rate revenues by \$31.9 million. The step two increase, which CWA anticipates would take effect in October 2020, would increase base rate revenues by an additional \$13.9 million. The step three increase, which CWA anticipates would take effect in October 2021, would increase base rate revenues by an additional \$12.0 million. In the rate case settlement agreement, CWA agreed voluntarily not to seek recovery of SIA 2 revenues uncollected as of the issuance of the final order in the rate case. Accordingly, CWA expensed \$4.0 million of regulatory assets related to SIA 2 revenues which were previously recorded within "Other current assets" as they are no longer probable of recovery as of March 31, 2019. A hearing on the settlement was held on May 9, 2019. CWA anticipates the IURC will issue an order on the petition in the fourth quarter of fiscal year 2019.

Resources - Westfield Gas

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

Resources - Westfield Water

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

Resources – Westfield Wastewater

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

Joint Depreciation Case

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

**10. COMMITMENTS AND CONTINGENCIES****A. Environmental Commitments and Contingencies**

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

Langsdale Environmental Remediation

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

Upon completion of a remediation work plan (RWP) in the fourth quarter of fiscal 2016, Citizens recorded a \$9.4 million liability for estimated remediation and restoration costs at the Langsdale Facility. These costs are expected to be incurred over a ten-year period. Citizens filed the RWP with IDEM in November 2016. The obligation is included in "Other current liabilities" and "Other long-term liabilities" in the Condensed Combined Statements of Financial Position and represents management's best estimate of the costs for remediation and restoration of the site. The accrued liability related to Langsdale environmental remediation was \$7.5 million and \$7.8 million at March 31, 2019 and September 30, 2018, respectively. Due to a number of uncertainties, including uncertainty of timing, the scope of remediation, future technology, regulatory changes, and other factors, the ultimate remediation costs may exceed the amounts estimated.

Potential National Priorities List Site, Indianapolis

In April 2016, the United States Environmental Protection Agency (EPA) proposed that an area near downtown Indianapolis be added to the National Priorities List (NPL) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), commonly known as "Superfund," due to the presence of certain chlorinated solvents in groundwater. The area is expected to include two well fields operated by Water. In addition, Gas owns property within the evaluation area. In June 2017, the EPA acknowledged its agreement with the Indiana Department of Environmental Management (IDEM) to defer final listing of the proposed site to the NPL whereby IDEM will oversee response actions at the site. It is probable that the company will incur costs related to IDEM's response actions. While

those amounts are not reasonably estimable at this time due to the early stages of this process, management does not anticipate they will have a material effect on its financial position, operations, equity, or cash flows at this time.

### Water System

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

### Wastewater System

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

### Combined Sewer Overflow Long-Term Control Plan Consent Decree

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

Upon acquisition of the Wastewater System in August 2011, CWA Authority (the Authority) assumed the City's obligations under the order of the U.S. District Court for the Southern District of Indiana (the Court) dated December 19, 2006, among the EPA, IDEM, and the City, as amended (the Consent Decree). The Authority has a capital improvement plan to meet guidelines of the Consent Decree and the overall needs of the Wastewater System. The improvements related to the Consent Decree and LTCP have been planned and scheduled through 2025. The DigIndy program, the most significant element of the Consent Decree, is the largest sewer infrastructure project in Indianapolis' history. The Deep Rock Tunnel Connector (DRTC) is the first segment of a 250 feet deep, 28-mile underground tunnel system designed to store 250 million gallons of combined sewage during wet weather events to prevent overflows from entering area rivers and streams. The stored flows will be pumped to the Southport AWTP, which was expanded as a part of this Consent Decree. The Belmont AWTP was also expanded as part of the Consent Decree and this work was completed in 2012. On December 29, 2017, the first 10 miles of the DigIndy Tunnel system and the DRTC pump station were operational and available for use. Mining for the White River and Lower Pogue Run tunnels, which comprise approximately 7 miles of the DigIndy tunnel system, began in September 2016 and finished in April 2019. Work to prepare the White River and Lower Pogue Run segments to capture raw sewage is ongoing with the tunnels scheduled to be online in 2021. Tunnel boring will begin shortly to mine the 3.4-mile Fall Creek Tunnel. Upon its completion, mining will begin on the tunnel system's final segment, the 7.6-mile Pleasant Run Tunnel. The Authority estimates the projected cost of the Consent Decree, including capital and operation and maintenance costs, is approximately \$2.0 billion in 2016 dollars.

## **B. Legal Contingencies**

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

## **11. SUBSEQUENT EVENTS**

Management has considered the impact of subsequent events through May 15, 2019, the date at which these condensed combined financial statements were issued.