



QUARTERLY
FINANCIAL REPORT
Q3 - 2018

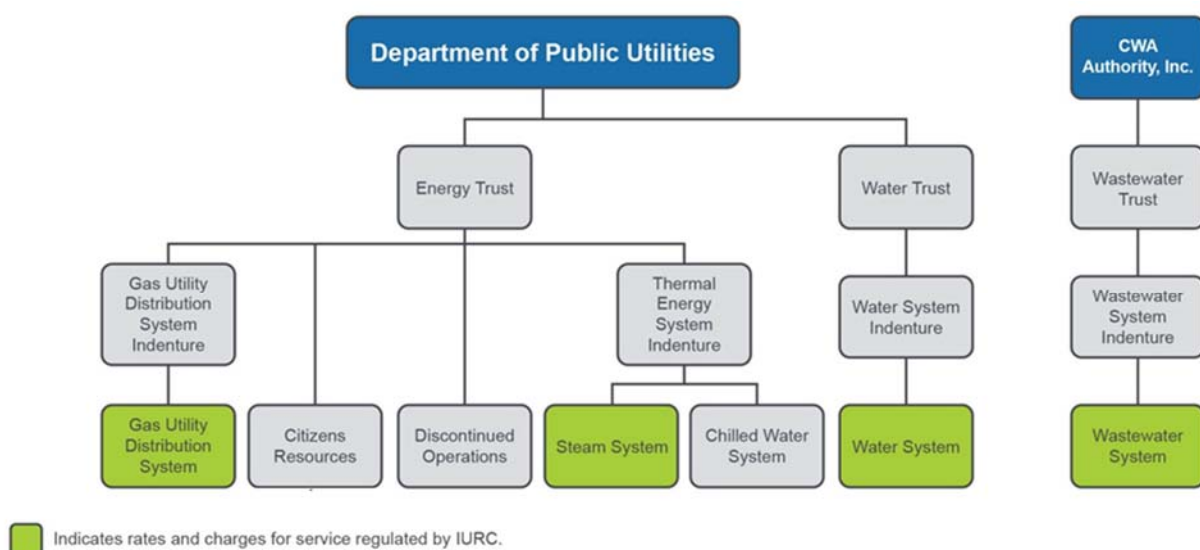
MANAGEMENT DISCUSSION AND ANALYSIS

Forward-looking Statements

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

Organization Structure

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



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

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

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

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

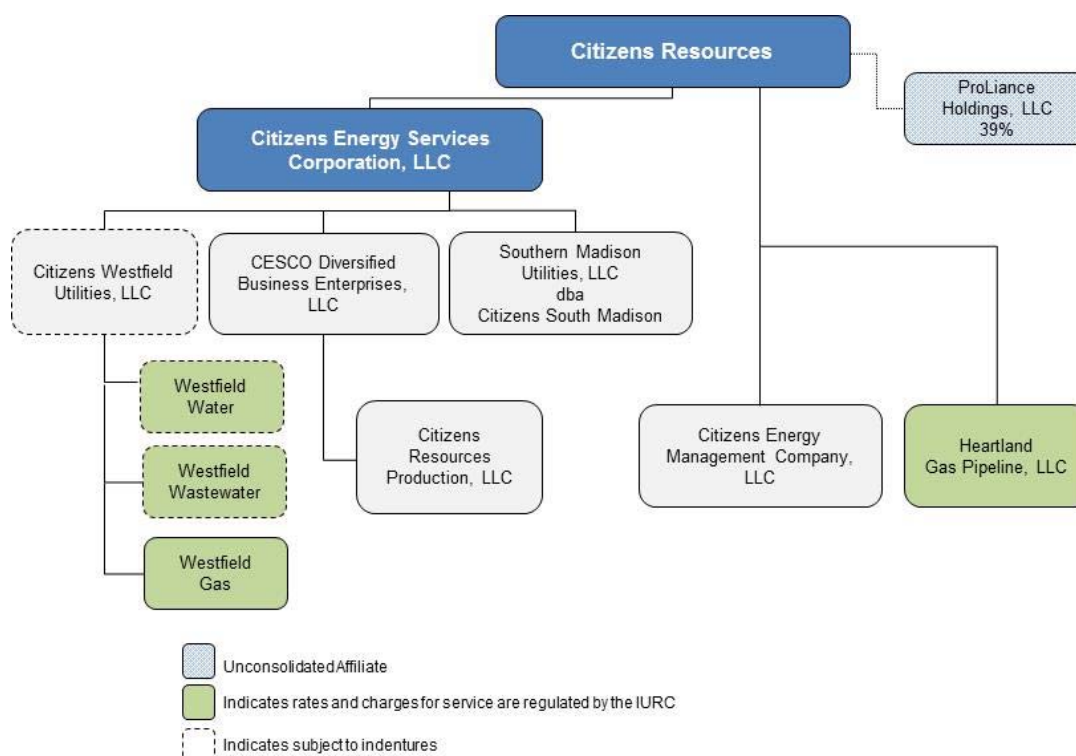
In addition as described above, each trust (i.e., the Energy Trust, the Water Trust, and the Wastewater Trust) exists separately from the other trusts. Thus, there are three separate public charitable trusts, each with a governmental entity serving as the trustee (the Energy Trust and the Water Trust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

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

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

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

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



In December 2017, Citizens Resources purchased the remaining 50% ownership share of Heartland Gas Pipeline, LLC which was previously reported as an unconsolidated affiliate (see Note 2D of the condensed combined financial statements).

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 nine months ended June 30, 2018 and 2017. Because of the seasonal nature of the various business units, results of operations for the period ended June 30, 2018 are not necessarily indicative of the results of operations to be expected for the full fiscal year. For a more detailed understanding of these results, see the following notes to the condensed combined financial statements:

- Note 2D – Investment in Unconsolidated Affiliates
- Note 3 – Long-Term Debt
- Note 5 – Financial Segment Information
- Note 6 – Manufacturing Discontinuation Of Production And Related Asset Retirement Obligations
- Note 7 – Rate and Regulatory Matters, Wastewater
- Note 8C – Commitments
- Note 9 – Sale of Subsidiary and LNG Assets

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 Jun-30			Nine Months Ended Jun-30		
	2018	2017	Change	2018	2017	Change
Shared Services Expenses	\$ 26.6	\$ 27.5	\$ (0.9)	\$ 76.2	\$ 80.5	\$ (4.3)

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

Three Months Ended June 30, 2018 as Compared with 2017

Shared services expenses decreased \$0.9 million due primarily to lower pension and post-employment benefit costs, labor and depreciation.

Nine Months Ended June 30, 2018 as Compared with 2017

Shared services expenses decreased \$4.3 million due primarily to lower pension and post-employment benefit costs and depreciation, partially offset by higher employee healthcare expenses.

GAS

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Jun-30			Nine Months Ended Jun-30		
	2018	2017	Change	2018	2017	Change
Operating revenues	\$ 39.2	\$ 37.9	\$ 1.3	\$ 232.0	\$ 209.7	\$ 22.3
Cost of goods sold	13.1	11.4	1.7	105.0	86.6	18.4
Margin	26.1	26.5	(0.4)	127.0	123.1	3.9
Other operating expenses	25.0	24.5	0.5	73.8	89.2	(15.4)
Operating income	1.1	2.0	(0.9)	53.2	33.9	19.3
Other income (expense), net	(0.2)	-	(0.2)	(0.1)	0.1	(0.2)
Interest charges	3.1	3.2	(0.1)	9.3	10.3	(1.0)
Segment income	\$ (2.2)	\$ (1.2)	\$ (1.0)	\$ 43.8	\$ 23.7	\$ 20.1

Volume sales, million Dth						
Retail	3.8	2.9	0.9	28.4	23.0	5.4
Transportation	4.5	4.4	0.1	17.3	15.6	1.7
Power generation and other	6.4	2.4	4.0	15.5	9.9	5.6
Cost of gas sold, per Dth	\$ 3.49	\$ 3.98	\$ (0.49)	\$ 3.70	\$ 3.76	\$ (0.06)
Heating degree days	542	340	202	5,281	4,255	1,026

Three Months Ended June 30, 2018 as Compared with 2017

Margin – Gas margin was \$0.4 million lower than prior period, largely driven by the normal temperature adjustment mechanism resulting from colder weather early in the quarter.

Other operating expenses – The \$0.5 million increase was primarily due to higher property taxes offset slightly by lower shared services expense allocations.

Nine Months Ended June 30, 2018 as Compared with 2017

Margin – Gas margin was \$3.9 million higher than prior period, largely driven by higher retail sales due to colder weather.

Other operating expenses – The decrease of \$15.4 million principally results from the prior period \$14.2 million loss recognized on the sale of LNG North plant assets.

Interest charges – The decrease of \$1.0 million was largely due to lower outstanding debt as a result of principal payments and lower interest expense resulting from refunding of the Series 2008B bonds in March 2017.

STEAM

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Jun-30			Nine Months Ended Jun-30		
	2018	2017	Change	2018	2017	Change
Operating revenues	\$ 14.6	\$ 15.9	\$ (1.3)	\$ 56.2	\$ 52.8	\$ 3.4
Cost of goods sold	7.4	8.8	(1.4)	28.5	27.1	1.4
Margin	7.2	7.1	0.1	27.7	25.7	2.0
Other operating expenses	6.2	6.7	(0.5)	18.9	19.3	(0.4)
Operating income	1.0	0.4	0.6	8.8	6.4	2.4
Other income (expense), net	-	-	-	0.1	-	0.1
Interest charges	0.8	0.8	-	2.4	2.6	(0.2)
Segment income	\$ 0.2	\$ (0.4)	\$ 0.6	\$ 6.5	\$ 3.8	\$ 2.7
Volume sales, million therms	15.0	13.7	1.3	48.9	44.4	4.5
Heating degree days	542	340	202	5,281	4,255	1,026

Three Months Ended June 30, 2018 as Compared with 2017

Margin – Steam margin remained relatively flat as decreased fuel costs resulted in lower operating revenues and expenses compared with the prior year.

Other operating expenses – The decrease of \$0.5 million was primarily driven by lower employee healthcare expenses.

Nine Months Ended June 30, 2018 as Compared with 2017

Margin – Margin was \$2.0 million higher largely attributed to increased volume sold due to colder weather compared with the prior year.

Other operating expenses – The decrease of \$0.4 million was primarily driven by lower shared services expense allocations.

CHILLED WATER

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Jun-30			Nine Months Ended Jun-30		
	2018	2017	Change	2018	2017	Change
Operating revenues	\$ 11.6	\$ 10.8	\$ 0.8	\$ 22.6	\$ 22.3	\$ 0.3
Cost of goods sold	3.6	3.5	0.1	7.0	6.9	0.1
Margin	8.0	7.3	0.7	15.6	15.4	0.2
Other operating expenses	4.3	3.9	0.4	11.9	12.1	(0.2)
Operating income (loss)	3.7	3.4	0.3	3.7	3.3	0.4
Other income (expense), net	0.1	-	0.1	0.1	-	0.1
Interest charges	0.3	0.3	-	0.9	3.5	(2.6)
Segment loss	\$ 3.5	\$ 3.1	\$ 0.4	\$ 2.9	\$ (0.2)	\$ 3.1
Volume sales, million ton hours	46.3	41.4	4.9	80.0	77.3	2.7
Cooling degree days	575	324	251	627	376	251

Three Months Ended June 30, 2018 as Compared with 2017

Margin – Chilled Water margin was \$0.7 million higher largely attributed to increased volume sold due to warmer weather compared with the prior year.

Other operating expenses – The \$0.4 million increase was primarily due to higher property and franchise tax expenses.

Nine Months Ended June 30, 2018 as Compared with 2017

Interest charges – \$2.6 million lower than prior period principally due to the prior year loss recorded on extinguishment of the Series 2008 Bonds resulting from the refunding of that Series in November 2016.

WATER

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Jun-30			Nine Months Ended Jun-30		
	2018	2017	Change	2018	2017	Change
Operating revenues	\$ 53.0	\$ 51.0	\$ 2.0	\$ 148.5	\$ 145.0	\$ 3.5
Other operating expenses	34.7	33.1	1.6	100.0	97.3	2.7
Operating income	18.3	17.9	0.4	48.5	47.7	0.8
Other income (expense), net	0.3	0.6	(0.3)	1.4	3.5	(2.1)
Interest charges	11.6	11.9	(0.3)	34.9	36.1	(1.2)
Segment income	\$ 7.0	\$ 6.6	\$ 0.4	\$ 15.0	\$ 15.1	\$ (0.1)
Volume sales, billion gallons	10.1	9.6	0.5	27.4	26.8	0.6
Precipitation, inches	10.8	20.6	(9.8)	29.6	37.1	(7.5)

Three Months Ended June 30, 2018 as Compared with 2017

Operating revenues – Increased revenues of \$2.0 million are primarily attributable to customer growth.

Other operating expenses – The \$1.6 million increase was largely due to higher property taxes of \$1.1 million, additional Indiana Utility Receipts Tax (IURT), and shared services expense allocations.

Nine Months Ended June 30, 2018 as Compared with 2017

Operating revenues – Increased revenues of \$3.5 million are primarily attributable to customer growth.

Other operating expenses – The \$2.7 million increase was driven by higher property taxes, shared service expense allocations and contract services expense. These increases were partially offset by lower employee pension and post-employment benefit expense.

Other income (expense), net – The decrease of \$2.1 million was due to the receipt of a contract termination payment for certain investment securities in the prior year.

Interest charges – The decrease of \$1.2 million was largely due to lower outstanding debt as a result of principal payments and lower interest expense resulting from refunding of various Series 2011 bonds in November 2016.

WASTEWATER

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Jun-30			Nine Months Ended Jun-30		
	2018	2017	Change	2018	2017	Change
Operating revenues	\$ 69.4	\$ 64.9	\$ 4.5	\$ 209.6	\$ 191.8	\$ 17.8
Other operating expenses	45.9	42.8	3.1	132.6	127.1	5.5
Operating income	23.5	22.1	1.4	77.0	64.7	12.3
Other income (expense), net	0.8	0.3	0.5	2.0	-	2.0
Interest charges	18.3	13.7	4.6	53.2	43.3	9.9
Segment income	\$ 6.0	\$ 8.7	\$ (2.7)	\$ 25.8	\$ 21.4	\$ 4.4
Treatment volume sales, billion gallons	9.2	8.4	0.8	25.2	25.0	0.2
Strength surcharge, million pounds	8.8	9.3	(0.5)	32.1	28.4	3.7

Three Months Ended June 30, 2018 as Compared with 2017

Operating revenues – Increased revenues of \$4.5 million was largely attributable to accrual of a system integrity adjustment.

Other operating expenses – The \$3.1 million increase was primarily the result of additional depreciation expense due to plant placed in service, higher shared services expense allocations, and increased payments in lieu of taxes (PILOT) per the established PILOT schedule. These increases were partially offset by decreases in employee healthcare and contract services expense.

Other income (expenses), net – The increase of \$0.5 million was due to interest income on bond restricted funds.

Interest charges – The increase of \$4.6 million was driven by lower capitalized interest due to plant placed in service and additional borrowings of long-term debt to support capital projects.

Nine Months Ended June 30, 2018 as Compared with 2017

Operating revenues – Increased revenues of \$17.8 million were primarily driven by accrual of a \$10.7 million system integrity adjustment and implementation of a step 2 rate increase which became effective August 1, 2017.

Other operating expenses – The \$5.5 million increase was driven by depreciation expense due to additional plant placed in service and increased payments in lieu of taxes per the established PILOT schedule. These increases were largely offset by a net \$3.5 million decrease in expenses resulting from in-sourcing operation and maintenance of the wastewater system and accrual for a legacy environmental obligation in the prior year.

Other income (expenses), net – The \$2.0 million increase is primarily due to additional interest income on bond restricted funds.

Interest charges – The increase of \$9.9 million was largely attributable to \$7.0 million in lower capitalized interest expense due to plant placed in service and additional borrowings of long-term debt to support capital projects.

RESOURCES

	Quarter-to-Date vs. Prior Year Three Months Ended Jun-30			Year-to-Date vs. Prior Year Nine Months Ended Jun-30		
	2018	2017	Change	2018	2017	Change
Operating revenues	\$ 9.5	\$ 8.0	\$ 1.5	\$ 28.8	\$ 34.2	\$ (5.4)
Cost of goods sold	0.2	0.2	-	1.6	8.9	(7.3)
Margin	9.3	7.8	1.5	27.2	25.3	1.9
Other operating expenses	6.0	5.7	0.3	18.1	15.0	3.1
Operating income	3.3	2.1	1.2	9.1	10.3	(1.2)
Other income (expense), net	0.1	0.2	(0.1)	0.2	0.3	(0.1)
Equity in earnings (loss) of affiliates	(3.7)	0.1	(3.8)	(5.7)	0.4	(6.1)
Interest charges	0.8	0.9	(0.1)	2.4	2.1	0.3
Segment income	\$ (1.1)	\$ 1.5	\$ (2.6)	\$ 1.2	\$ 8.9	\$ (7.7)

Three Months Ended June 30, 2018 as Compared with 2017

Margin – Resources margin was \$1.5 million higher than prior year due to margin from Heartland Gas Pipeline, which is now consolidated in Resources financial results, and incremental margin from the Westfield utilities.

Other operating expenses – Comparable to prior year, with increased expenses at Citizens Resources Production and current year operating expenses for Heartland Gas Pipeline offsetting a gain recognized on the sale of certain land parcels.

Equity in earnings (loss) of affiliates – \$3.7 million equity method accounting loss recorded for an affiliate joint venture investment in June 2018.

Nine Months Ended June 30, 2018 as Compared with 2017

Margin – Resources margin was \$1.9 million higher than prior year as increased stormwater management revenues, margin from Heartland Gas Pipeline, and incremental margin from Westfield utilities were offset by the prior year margin from LNG Indy which was sold in December 2016.

Other operating expenses – \$3.1 million higher than prior year due to increased stormwater management expenses, increased expenses at Citizens Resources Production, and current year operating expenses of Heartland Gas Pipeline. Additionally, the current year gain recognized on the sale of certain land parcels was offset by the prior year gain on the sale of LNG Indy net of LNG Indy's operating expenses which were incurred before the sale.

Equity in (losses) earnings of affiliates – \$6.1 million lower than the prior year driven by an impairment charge recognized on an affiliate joint venture investment in Q1 2018 and an equity method accounting loss recorded for the same investment in June 2018.

Interest charges – \$0.3 million higher due to fair value mark-to-market adjustments recorded for interest rate swaps.

OTHER

	Quarter-to-Date vs. Prior Year			Year-to-Date vs. Prior Year		
	Three Months Ended Jun-30			Nine Months Ended Jun-30		
	2018	2017	Change	2018	2017	Change
Operating revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operating expenses	-	-	-	0.2	-	0.2
Operating income (loss)	-	-	-	(0.2)	-	(0.2)
Other income (expense), net	(0.7)	(0.6)	(0.1)	(1.4)	(1.5)	0.1
Interest charges	-	-	-	-	0.1	(0.1)
Loss from discontinued operations	(0.9)	(1.1)	0.2	(2.6)	(2.9)	0.3
Segment loss	\$ (1.6)	\$ (1.7)	\$ 0.1	\$ (4.2)	\$ (4.5)	\$ 0.3

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

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 nine months ended June 30, 2018, capital expenditures, on an accrual basis, decreased by \$2.8 million to \$175.4 million from \$178.2 million during the same period last year. This decrease is summarized in the table below (in millions). Certain accrued expenditures, including all capitalized interest, have been included in Other for segment presentation of Capitalized Expenditures, while the capitalized interest amounts on the segmented statements of financial position are reflected as Property, Plant, and Equipment in their respective segments.

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
Q3 2018	\$ 17.0	\$ 4.3	\$ 1.7	\$ 35.8	\$ 97.5	\$ 5.2	\$ 13.9	\$ 175.4
Q3 2017	\$ 14.4	\$ 1.8	\$ 1.7	\$ 25.3	\$ 108.9	\$ 4.7	\$ 21.4	\$ 178.2
	\$ 2.6	\$ 2.5	\$ -	\$ 10.5	\$ (11.4)	\$ 0.5	\$ (7.5)	\$ (2.8)

Citizens' and CWA's projected capital spending requirement of \$269.5 million for 2018 is summarized as follows (in millions):

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
2018 Projection	\$ 23.3	\$ 4.8	\$ 3.2	\$ 49.0	\$ 151.6	\$ 13.5	\$ 24.1	\$ 269.5

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 \$98.0 million at June 30, 2018. Gas expects to meet its capital spending requirements in 2018 through cash flows from operations and the temporary seasonal use of its credit lines.

Citizens Thermal's Steam business segment continues to invest in distribution assets and production equipment. Chilled Water capital spending plans similarly include investments in distribution assets and production equipment. At June 30, 2018, cash and cash equivalents of Steam and Chilled Water amounted to \$13.5 million and \$18.3 million, respectively. Steam expects to meet its capital spending requirements in 2018 through cash flows from operations and temporary seasonal use of its credit line while Chilled Water expects to meet its 2018 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 \$37.5 million at June 30, 2018. Water expects to meet its capital spending requirements in 2018 through a combination of cash flows from operations, and use of its line of credit.

The Wastewater business segment has a capital improvement plan to meet guidelines of the Combined Sewer Overflow Long-Term Control Plan and the overall needs of the Wastewater System. See Note 8 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 \$24.8 million at June 30, 2018. Wastewater expects to meet its capital spending requirements in 2018 through a combination of cash flows from operations, as well as from balances remaining from issuance of the Series 2016C State Revolving Fund (SRF) bonds (\$6.3 million) and the Series 2017A SRF bonds (\$88.5 million) (both recorded in bond restricted funds), and its line of credit. See Note 7 – Wastewater, to the condensed combined financial statements, for a discussion of the Order received on July 18, 2016 in the Wastewater rate case.

Resources' capital spending projection for 2018 includes activities at Citizens Resources Production, Citizens South Madison, Westfield Gas, Westfield Water, and Westfield Wastewater. Resources expects to meet its capital spending requirements in 2018 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 June 30, 2018	At September 30, 2017
ASSETS		
Property, plant, and equipment		
Plant in service	\$ 6,543,144	\$ 6,009,852
Accumulated depreciation	3,345,671	3,244,452
	3,197,473	2,765,400
Construction work in progress	371,061	717,867
Total property, plant, and equipment	3,568,534	3,483,267
Intangible assets, net	62,524	65,301
Investments		
Bond restricted funds	347,364	446,937
Investment in affiliates	626	16,402
Other	21,286	24,616
Total investments	369,276	487,955
Current assets		
Cash and cash equivalents	250,552	299,632
Accounts receivable, less allowance for doubtful accounts of \$3,802 and \$2,411, respectively	79,822	70,500
Accrued utility revenue	21,164	23,401
Natural gas in storage	26,128	42,825
Materials and supplies	11,383	10,705
Other current assets	6,416	6,727
Current assets directly related to discontinued operations	1,145	504
Total current assets	396,610	454,294
Deferred charges and other non-current assets		
Deferred charges	53,243	47,554
Non-current assets directly related to discontinued operations	3	-
Total deferred charges and other non-current assets	53,246	47,554
TOTAL ASSETS	\$ 4,450,190	\$ 4,538,371
CAPITALIZATION AND LIABILITIES		
Capitalization and non-current liabilities		
Retained earnings	\$ 418,584	\$ 327,635
Accumulated other comprehensive loss	(114,673)	(118,465)
Long-term debt (excluding current maturities)	3,218,492	3,383,224
Retirement benefits	165,501	172,923
Contributions in aid of construction	221,917	203,770
Other long-term liabilities	30,812	36,971
Non-current liabilities directly related to discontinued operations	65,707	71,635
Total capitalization and non-current liabilities	4,006,340	4,077,693
Current liabilities		
Current maturities of long-term debt	133,936	99,885
Short-term borrowings	76,500	51,200
Accounts payable and accrued expenses	147,420	220,472
Accrued taxes	49,453	55,433
Customer deposits and advance payments	24,321	21,602
Other current liabilities	8,686	8,833
Current liabilities directly related to discontinued operations	3,534	3,253
Total current liabilities	443,850	460,678
Commitments and contingencies (see note 8)		
TOTAL CAPITALIZATION AND LIABILITIES	\$ 4,450,190	\$ 4,538,371

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 June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Operating revenues	\$ 193,707	\$ 186,844	\$ 688,855	\$ 644,865
Operating expenses				
Cost of goods sold	21,121	22,489	134,971	119,691
Operations and maintenance	67,763	67,743	193,718	198,402
Depreciation and amortization	40,660	37,837	119,760	113,418
(Gain) loss on divestiture	(1,533)	(380)	(1,533)	10,279
Taxes	14,840	11,298	41,868	36,769
Total operating expenses	142,851	138,987	488,784	478,559
Operating income	50,856	47,857	200,071	166,306
Other income (expense), net				
Interest income	1,198	781	3,347	2,002
Other	(856)	(251)	(1,044)	289
Total other income, net	342	530	2,303	2,291
Income before equity in earnings of affiliates and interest charges	51,198	48,387	202,374	168,597
Equity in (losses) earnings of affiliates	(3,711)	111	(5,745)	394
Interest charges				
Interest on long-term debt	39,039	38,641	117,707	116,518
Other interest, including net premium amortization	(4,165)	(7,730)	(14,514)	(18,447)
Total interest charges	34,874	30,911	103,193	98,071
Income from continuing operations	12,613	17,587	93,436	70,920
Loss from discontinued operations	(894)	(1,044)	(2,487)	(2,841)
Net income	\$ 11,719	\$ 16,543	\$ 90,949	\$ 68,079
Retirement benefit liability changes:				
Amortization of prior service credit	(479)	(180)	(1,437)	(540)
Amortization of loss	1,927	2,922	5,781	8,765
Total retirement benefit liability changes	1,448	2,742	4,344	8,225
Unrealized (loss) gain on available-for-sale investments	(118)	84	(552)	226
Total other comprehensive income	1,330	2,826	3,792	8,451
Total comprehensive income	\$ 13,049	\$ 19,369	\$ 94,741	\$ 76,530

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)

	Nine Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 90,949	\$ 68,079
Depreciation and amortization	113,557	108,833
(Gain) loss on divestiture or sale/impairment of assets	(1,393)	10,279
Loss on extinguishment of debt	-	2,322
Equity in losses (earnings) of affiliates, net of distributions	6,370	(394)
Allowance for doubtful accounts	4,216	4,700
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(10,921)	(15,418)
Natural gas in storage	16,697	4,974
Accounts payable and accrued expenses	(26,938)	(17,983)
Retirement benefits	(3,078)	871
Other operating activities	(16,565)	(5,577)
Change in net liabilities of discontinued operations	2,378	(5,190)
Net cash provided by operating activities	175,272	155,496
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(227,597)	(203,397)
Purchase of investment securities	(115,215)	(170,868)
Sale and maturity of investment securities	214,895	193,885
Divestiture proceeds, net of expenses	2,091	47,861
Acquisition of business, net of cash acquired	(3,364)	-
Other investing activities	2,353	5,151
Net cash used in investing activities	(126,837)	(127,368)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank line of credit	20,500	3,700
Repayment of bank line of credit	-	(84,100)
Principal payments of long-term debt and bond refunding	(124,395)	(461,864)
Proceeds from bond refunding	-	379,669
Bond issuance costs	(36)	(2,118)
Contributions in aid of construction	6,823	4,689
Other financing activities	(407)	(527)
Net cash used in financing activities	(97,515)	(160,551)
Net change in cash and cash equivalents	(49,080)	(132,423)
Cash and cash equivalents at beginning of fiscal year	299,632	436,242
Cash and cash equivalents at end of fiscal period	\$ 250,552	\$ 303,819
Supplemental Cash Flows Information - Interest paid	\$ 126,339	\$ 111,658
Non-cash Investing and Operating Activities		
Construction work-in-progress accrued at period end	\$ 36,325	\$ 26,405

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

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

Condensed Combined Statements of Equity (Unaudited)

(In Thousands)

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at September 30, 2016	\$ 238,029	\$ (181,063)	\$ 56,966
Comprehensive income			
Net income	68,079	-	68,079
Unrealized gain (loss) on available-for-sale investments	-	226	226
Retirement benefit liability changes	-	8,225	8,225
Total comprehensive income	68,079	8,451	76,530
Customer benefit distributions	-	-	-
Balance at June 30, 2017	\$ 306,108	\$ (172,612)	\$ 133,496
Balance at September 30, 2017	\$ 327,635	\$ (118,465)	\$ 209,170
Comprehensive income			
Net income	90,949	-	90,949
Unrealized loss on available-for-sale investments	-	(552)	(552)
Retirement benefit liability changes	-	4,344	4,344
Total comprehensive income	90,949	3,792	94,741
Customer benefit distributions	-	-	-
Balance at June 30, 2018	\$ 418,584	\$ (114,673)	\$ 303,911

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, 2017. Because of the seasonal nature of the various business segments, the results of operations for the period ended June 30, 2018 are not necessarily indicative of the results of operations to be expected for the full fiscal year.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. 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. The fair value of the interest rate swap is determined by calculating the net present value of the forecasted cash flow difference between the fixed and variable rates of the swap.

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 and liabilities measured at fair value on a recurring basis, based on the hierarchy, as of June 30, 2018 and September 30, 2017 (in thousands):

Description	June 30, 2018 Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	\$ 42,102	\$ -	\$ -
Bond restricted funds	334,352	-	-
Grantor Trust investments	15,104	-	-
Derivative assets	74	62	-
Total financial assets measured at fair value	<u>\$ 391,632</u>	<u>\$ 62</u>	<u>\$ -</u>
Financial Liabilities:			
Derivative liabilities	\$ -	\$ -	\$ -
September 30, 2017 Fair Value Measurements Using			
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	\$ 31,863	\$ -	\$ -
Bond restricted funds	433,924	-	-
Grantor Trust investments	15,046	-	-
Derivative assets	203	-	-
Total financial assets measured at fair value	<u>\$ 481,036</u>	<u>\$ -</u>	<u>\$ -</u>
Financial Liabilities:			
Derivative liabilities	\$ -	\$ 162	\$ -

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 \$347.4 and \$446.9 million at June 30, 2018 and September 30, 2017, respectively. Included in bond restricted funds at June 30, 2018 and September 30, 2017 are approximately \$6.3 million and \$9.6 million, respectively, of proceeds from CWA's First Lien Wastewater Revenue Bonds, Series 2016C, and \$88.5 million and \$149.0 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. 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 June 30, 2018 and September 30, 2017. Gross deposits to the bond restricted fund investments during the first nine months of fiscal years 2018 and 2017 were \$177.9 million and \$170.5 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 quarter.

Management has estimated the fair value of the outstanding debt securities based on the coupons of the outstanding bonds and the current market yields. These are Level 2 fair value measurements. Management established the corresponding price to the call date as well as the price to maturity. The fair value was determined based on the lower of these two prices. Using this method, the estimated fair value of the debt is \$3.4 billion at June 30, 2018 and \$3.6 billion at September 30, 2017, versus carrying value of \$3.4 billion and \$3.5 billion at June 30, 2018 and September 30, 2017, respectively. In the case of Resources debt, the carrying value approximates fair value.

B. 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 nine months ended June 30, 2018 (in thousands):

	Pension Plan	Other Postemployment Benefits	Other	Total
Accumulated other comprehensive (loss) income at September 30, 2017	(112,865)	(5,821)	221	(118,465)
Other comprehensive loss before reclassifications	-	-	-	-
Amounts reclassified from accumulated other comprehensive (loss) income	4,950	(606)	(552)	3,792
Net current-period other comprehensive (loss) income	4,950	(606)	(552)	3,792
Accumulated other comprehensive loss at June 30, 2018	<u>\$ (107,915)</u>	<u>\$ (6,427)</u>	<u>\$ (331)</u>	<u>\$ (114,673)</u>

C. New Accounting Guidance

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), providing guidance regarding the principles and standards for revenue recognition. The standard creates a framework for recognizing revenue to improve comparability of revenue recognition practices across entities and industries. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date. Amendments in this update defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. The majority of the Company's revenues result from tariff sales contracts which are arrangements whereby a utility provides commodity service to a customer for a price approved by an independent, third party regulator. For such tariff-based revenues the Company does not anticipate the new standard will materially impact the amount and timing of such revenues. The Company has also established an implementation team and is in the process of evaluating potential changes to its business processes, systems, and internal controls to support recognition and disclosure under the new standard. Revenue contract assessments have been completed, material revenue streams were identified, and representative contract/transaction types were evaluated. Performance obligations identified within each material revenue stream were evaluated and it was determined the obligations were satisfied over time. Contracts determined to be satisfied over time generally qualify for the invoicing practical expedient since invoiced amounts reasonably represent the value to customers of performance obligations fulfilled to date. Based upon the completed assessments, management does not expect a material impact to the timing of revenue recognized or net income and plans to elect the full retrospective transition approach upon adoption. The Company will continue to evaluate ASU 2014-09 and plans to adopt the new standard effective October 1, 2018.

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. This ASU is effective for reporting periods beginning after December 15, 2018. The Company is presently evaluating the impact of adopting this guidance and at this time adoption of these changes is not expected to have a material impact to the Company's combined financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715), which revises how employers sponsoring defined benefit pension and other post-employment plans present the net periodic benefit cost in their income statement. Specifically, the ASU requires entities to report the service cost component in the same line item as other compensation costs and report the other components of net periodic benefit costs separately and outside a subtotal of operating income. In addition, only the service cost component will be eligible for asset capitalization. The ASU is effective for annual reporting periods beginning after December 15, 2017. The Company has evaluated the impact of adopting this guidance and at this time adoption of these changes is not expected to have a material impact to the Company's combined financial statements.

D. Investment in Unconsolidated Affiliates

Unconsolidated affiliates at September 30, 2017 include ProLiance Holdings, LLC (ProLiance), a jointly-owned affiliate of Resources (39%) and Vectren Energy Marketing & Services, Inc., (61%); and Heartland Gas Pipeline, LLC (HGP), an affiliation of equal ownership between Resources and ProLiance. Both investments were accounted for under the equity method. In December 2017, Resources purchased ProLiance's 50% ownership share of HGP for a price representing 50% of the net book value of HGP, resulting in Resources owning 100% of HGP. Accordingly, the financial results of HGP are consolidated in the Resources segment beginning December 1, 2017. The transaction was accounted for as a business acquisition. Fair value of the net assets acquired approximated their book value; therefore there was no excess purchase price allocated to goodwill or other intangible assets acquired. To facilitate the purchase of HGP, Gas advanced Resources approximately \$15.4 million in cash during December 2017 as HGP's assets will ultimately be used exclusively by Gas in its operations. Resources also recognized a \$1.9 million impairment of its remaining affiliate in December 2017 and \$3.7 million of losses under the equity-method for the same affiliate in June 2018.

E. Derivatives and Hedging

In 2018 and 2017, 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 hedges 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.

3. LONG-TERM DEBT

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

	(In Thousands)					
	June 30, 2018			September 30, 2017		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Gas						
Gas Utility System Series 1986B, Revenue Refunding Bonds, 3.50% to 4.00%, due 2018	\$ -	\$ -	\$ -	\$ -	\$ 11,065	\$ (200)
Gas Utility Distribution System Series 2008C, 2 nd Lien Revenue Refunding Bonds, 5.00% to 5.25%, due 2018 to 2021	27,085	14,950	754	42,035	3,330	1,063
Gas Utility Distribution System Series 2009A, 2 nd Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2018	-	-	-	-	11,665	74
Gas Utility Distribution System Series 2010A, 2 nd Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2024	59,975	-	1,410	59,975	-	1,590
Gas Utility Distribution System Series 2013A, 2 nd Lien Revenue Refunding Bonds, 4.125% to 5.250%, due 2027 to 2030	54,465	-	1,256	54,465	-	1,320

(In Thousands)

	June 30, 2018			September 30, 2017		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Gas Utility Distribution System Series 2017A, 2 nd Lien Revenue Refunding Bonds 5.00%, due 2025 to 2027	49,825	-	8,136	49,825	-	8,800
Subtotal Gas Long-Term Debt	191,350	14,950	11,556	206,300	26,060	12,647
<u>Thermal</u>						
Thermal Energy System Series 2010A, First Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2018 to 2029	1,040	490	6	1,530	470	10
Thermal Energy System Series 2010B, First Lien Revenue Refunding Bonds, 5.00%, due 2017 to 2021	22,700	7,950	1,018	30,650	7,615	1,475
Thermal Energy System Series 2013A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2018 to 2033	7,075	330	62	7,405	320	70
Thermal Energy System Series 2014A, First Lien Revenue Refunding Bonds, 2.00% to 5.00%, due 2018 to 2034	30,795	1,255	2,841	32,050	1,205	3,042
Thermal Energy System Series 2016A, First Lien Revenue Refunding Bonds, 5.00%, due 2021 to 2029	50,410	-	7,773	50,410	-	8,717
Subtotal Thermal Long-Term Debt	112,020	10,025	11,700	122,045	9,610	13,314
<u>Water</u>						
Water Utility Series 2011C (ILPIBB 2006A)*, First Lien Net Revenue Bonds, 5.50%, due 2018 to 2022	41,015	7,080	(43)	44,555	10,055	(52)
Water Utility Series 2011D (ILPIBB 2007D)*, First Lien Net Revenue Bonds, 5.25%, due 2022 to 2025	70,410	-	(63)	70,410	-	(66)
Water Utility Series 2011F (ILPIBB 2009A)*, First Lien Net Revenue Bonds, 4.00% to 5.75%, due 2018 to 2038	410,385	5,160	(372)	415,545	5,615	(397)
Water Utility Series 2011G (ILPIBB 2011E)*, First Lien Net Revenue Bonds, 3.25% to 5.125%, due 2018 to 2041	50,245	1,275	(46)	51,520	1,225	(50)

	(In Thousands)					
	June 30, 2018			September 30, 2017		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Water Utility Series 2014A, First Lien Net Revenue Bonds, 3.00% to 5.00%, due 2018 to 2044	25,230	510	1,500	25,740	490	1,535
Water Utility Series 2014B, 2 nd Lien Revenue Refunding Bonds, 2.95%, due 2022	43,595	-	(178)	43,595	-	(209)
Water Utility Series 2016A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2018 to 2046	66,785	1,140	12,391	67,925	1,090	12,764
Water Utility Series 2016B, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2018 to 2038	216,895	3,000	34,974	219,895	-	36,769
Subtotal Water Long-Term Debt	924,560	18,165	48,163	939,185	18,475	50,294
<u>Wastewater</u>						
CWA Wastewater Utility Series 2011A, First Lien Revenue Bonds, 2.50% to 5.25%, due 2018 to 2041	600,760	13,611	27,579	614,370	12,965	28,589
CWA Wastewater Utility Series 2011B, Second Lien Revenue Bonds, 5.00% to 5.25%, due 2018 to 2041	243,020	5,500	4,265	248,520	5,235	4,461
CWA Wastewater Utility Series 2012A, First Lien Revenue Bonds, 2.75% to 5.00%, due 2018 to 2042	174,510	3,835	14,798	178,345	3,650	15,514
CWA Wastewater Utility Series 2014A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2018 to 2044	221,460	4,135	19,102	225,595	3,935	19,835
CWA Wastewater Utility Series 2015A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2018 to 2045	151,055	2,685	20,993	153,740	2,555	21,724
CWA Wastewater Utility Series 2016A, First Lien Revenue Bonds, 2.00% to 5.00%, due 2018 to 2046	187,310	3,010	37,087	190,320	2,950	38,224
CWA Wastewater Utility Series 2016B, 2 nd Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2018 to 2046	41,940	815	2,292	42,755	790	2,429

(In Thousands)

	June 30, 2018			September 30, 2017		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
CWA Wastewater Series 2016C, First Lien Revenue Bonds (SRF), 2.00%, due 2018 to 2036	11,575	530	(87)	11,575	530	(94)
CWA Wastewater Series 2017A, First Lien Revenue Bonds (SRF), 3.53%, due 2018 to 2047	160,182	3,344	(79)	160,182	3,344	(157)
Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds, see table below	-	-	-	-	7,483	-
Subtotal Wastewater Long-Term Debt	1,791,812	37,465	125,950	1,825,402	43,437	130,525
Resources						
Citizens Westfield Utilities Series 2014A, Revenue Bonds, 90% of 3-month LIBOR plus 2.674% with an offsetting swap of 1.3615% less 74% of 3-month LIBOR, due 2019	-	29,029	(214)	60,454	2,303	(430)
Citizens Westfield Water Series 2014A, Revenue Bonds, 90% of 1-month LIBOR plus 1.945% with an offsetting swap of 1.2918% less 74% of 1-month LIBOR, due 2019	-	8,365	(25)	8,365	-	(52)
Citizens Westfield Wastewater Series 2014A, Revenue Bonds, 90% of 1-month LIBOR plus 1.945% with an offsetting swap of 1.2918% less 74% of 1-month LIBOR, due 2019	-	15,270	(47)	15,270	-	(95)
Heartland Gas Pipeline** Bank Loan 1-month LIBOR plus 1.75% with a swap to effectively fix the rate at 3.54%, due 2018 to 2019	1,667	667	-	-	-	-
Subtotal Resources Long-Term Debt	1,667	53,331	(286)	84,089	2,303	(577)
Total Long-Term Debt	\$3,021,409	\$ 133,936	\$ 197,083	\$3,177,022	\$ 99,885	\$ 206,202

* Indianapolis Local Public Improvement Bond Bank (ILPIBB)

** Heartland Gas Pipeline was an unconsolidated affiliate at September 30, 2017 (See Note 2D).

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

2018	\$ 8,157
2019	134,146
2020	92,671
2021	98,170
2022	103,008
Thereafter	2,719,193
Total principal maturities	<u>\$ 3,155,345</u>

Recent Debt Transaction Activity

On November 17, 2016, Citizens Water issued \$219.9 million of First Lien Water Utility Revenue Refunding Bonds, Series 2016B, due 2018 to 2038. This series was issued at a premium of \$39.8 million, with coupons ranging from 4.0% to 5.0%. The proceeds of this series were used to refund the Water Utility bonds Series 2011B and Series 2011E in entirety and a portion of the Series 2011C and Series 2011F bonds, with an aggregate principal of \$248.9 million.

On November 22, 2016, Citizens Thermal issued \$50.4 million of First Lien Thermal Energy System Revenue Refunding Bonds, Series 2016A, due 2021 to 2029. This series was issued at a premium of \$10.1 million, with 5.0% coupons. The proceeds of this series were used to refund the Thermal Energy System bonds Series 2008 in entirety and a portion of the Series 2010A bonds with an aggregate principal of \$56.2 million.

On March 29, 2017, Citizens Gas issued \$49.8 million of Gas Utility Distribution System Second Lien Revenue Refunding Bonds, Series 2017A, due 2025 to 2027. This series was issued at a premium of \$9.6 million, with 5.0% coupons. The proceeds of this series were used to refund the Gas Utility Distribution System bonds Series 2008B in entirety with an aggregate principal of \$55.9 million.

On July 21, 2017, Citizens Wastewater issued \$163.5 million of First Lien State Revolving Fund Bonds, Series 2017A. The Series 2017A bonds were issued at par and have principal maturities between 2018 and 2047. The bonds were issued to fund specified consent decree capital projects for the Wastewater system (see Note 9A).

On March 21, 2018, CWU repaid approximately \$32.5 million of debt prior to its maturity date as permitted in the indenture between CWU and its lenders.

Other Long-Term Debt Obligations

CWA has agreed to make payments to the City in order to satisfy the annual debt service payments on the outstanding principal amount of the General Obligation Sanitary District Bonds listed below. The bonds were paid in full in December 2017. Principal amounts outstanding at June 30, 2018 and September 30, 2017 are as follows (in thousands):

	June 30, 2018	September 30, 2017
Wastewater General Obligation Bonds Series 2007 C, 5.00%, due 2018	\$ -	\$ 6,285
Wastewater General Obligation Bonds Series 2013A, 5.25%, due 2018	-	1,198
Total Wastewater General Obligation Bond Debt	<u>\$ -</u>	<u>\$ 7,483</u>

4. SHORT-TERM AND OTHER BORROWINGS

Gas

Gas had \$50.0 million in commercial paper outstanding at June 30, 2018 and September 30, 2017. The commercial paper has a maximum maturity of 270 days. It last remarketed in July 2018 and will remarket again in September 2018. 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 June 30, 2018 and September 30, 2017, 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 June 30, 2018 and September 30, 2017, 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 68.50 percent of LIBOR plus 0.70 percent with a commitment fee of 0.15 percent. At June 30, 2018 and September 30, 2017, no amounts were outstanding.

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

Wastewater

On September 28, 2017 CWA closed on a reduction of the capital expenditure line of credit from \$145.0 million to \$100.0 million and extended the maturity date from September 30, 2017 to September 30, 2020. The line of credit is with a syndicate of JP Morgan Chase and Wells Fargo, each with equal participation and with JP Morgan Chase acting as Administrative Agent, at an interest rate of 88 percent of LIBOR plus 0.84 percent and a commitment fee of 0.22 percent. At June 30, 2018 and September 30, 2017, \$20.0 million and \$0.0 million, respectively, were outstanding on the line of credit.

Resources

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

Entity	Credit Capacity	Maturity Date	Interest Rate	Commitment Fee	Amount Outstanding at (in millions)	
					June 30, 2018	September 30, 2017
Westfield Gas	\$4.0 million	March 30, 2021	LIBOR + 1.65%	0.150%	\$ 1.7	\$ 1.2
Westfield Water	\$10.3 million	March 21, 2019	LIBOR + 2.40%	0.175%	3.5	3.5
Westfield Wastewater	\$11.0 million	March 21, 2019	LIBOR + 2.40%	0.175%	3.0	3.0

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

5. 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 area.

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

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

Resources conducts for-profit business activities in order to ultimately provide enhanced benefits to Citizens' beneficiaries. Resources includes affiliate joint venture investments of \$0.6 million and \$16.4 million at June 30, 2018 and September 30, 2017, respectively. 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 owns Heartland Gas Pipeline, LLC, which provides gas transportation and storage services to Gas.

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

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

Segment statements of financial position at June 30, 2018 and September 30, 2017, statements of operations for the three and nine months ended June 30, 2018 and 2017, and statements of cash flows for the nine months ended June 30, 2018 and 2017 are summarized as follows:

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

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Elimin- ations	Total
Assets									
Property, plant, and equipment	\$ 286,927	\$ 74,631	\$ 63,041	\$ 1,096,179	\$ 1,831,101	\$ 193,308	\$ 23,347	\$ -	\$ 3,568,534
Intangibles	-	16,415	46,109	-	-	-	-	-	62,524
Investments	4,545	8,946	3,961	86,459	260,534	4,776	55	-	369,276
Cash and cash equivalents	97,994	13,476	18,323	37,471	24,795	35,160	23,333	-	250,552
Other current assets	75,129	10,106	8,890	36,974	42,119	5,221	(3,083)	(29,298)	146,058
Deferred charges and other non-current assets	8,818	2,898	102	17,716	18,636	1,468	3,608	-	53,246
Total assets	\$ 473,413	\$ 126,472	\$ 140,426	\$ 1,274,799	\$ 2,177,185	\$ 239,933	\$ 47,260	\$ (29,298)	\$ 4,450,190
Capitalization and Liabilities									
Retained earnings and AOCI	\$ 101,386	\$ 19,250	\$ 85,924	\$ 64,281	\$ 35,769	\$ 97,170	\$ (99,869)	\$ -	\$ 303,911
Long-term debt	202,906	80,964	42,756	972,723	1,917,762	1,381	-	-	3,218,492
Retirement benefit and Other long-term liabilities	46,700	9,082	2,427	161,877	78,182	57,772	127,897	-	483,937
Current mat. of long-term debt	14,950	5,526	4,499	18,165	37,465	53,331	-	-	133,936
Short-term borrowings	50,000	-	-	-	20,000	6,500	-	-	76,500
Current liabilities	57,471	11,650	4,820	57,753	88,007	23,779	19,232	(29,298)	233,414
Total capitalization and liabilities	\$ 473,413	\$ 126,472	\$ 140,426	\$ 1,274,799	\$ 2,177,185	\$ 239,933	\$ 47,260	\$ (29,298)	\$ 4,450,190

Segment Footnote - Condensed Combined Statement of Financial Position*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**At September 30, 2017*

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Elimin- ations	Total
Assets									
Property, plant, and equipment	\$ 285,682	\$ 73,236	\$ 63,288	\$ 1,080,594	\$ 1,779,073	\$ 176,843	\$ 24,551	\$ -	\$ 3,483,267
Intangibles	-	17,153	48,148	-	-	-	-	-	65,301
Investments	18,609	11,127	5,515	82,046	346,440	24,092	126	-	487,955
Cash and cash equivalents	96,379	11,450	40,448	53,196	54,263	27,595	16,301	-	299,632
Other current assets	71,929	10,404	6,323	37,703	42,757	5,730	(6,509)	(13,675)	154,662
Deferred charges and other non-current assets	19,488	3,213	56	18,803	11,152	1,856	2,525	(9,539)	47,554
Total assets	\$ 492,087	\$ 126,583	\$ 163,778	\$ 1,272,342	\$ 2,233,685	\$ 236,116	\$ 36,994	\$ (23,214)	\$ 4,538,371
Capitalization and Liabilities									
Retained earnings and AOCI	\$ 87,431	\$ 12,426	\$ 103,684	\$ 50,082	\$ 9,954	\$ 77,948	\$ (132,355)	\$ -	\$ 209,170
Long-term debt	218,947	87,369	47,990	989,479	1,955,927	83,512	-	-	3,383,224
Retirement benefit and Other long-term liabilities	50,394	8,819	2,483	152,308	69,858	64,355	146,621	(9,539)	485,299
Current mat. of long-term debt	26,060	5,301	4,309	18,475	43,437	2,303	-	-	99,885
Short-term borrowings	50,000	-	-	-	-	1,200	-	-	51,200
Current liabilities	59,255	12,668	5,312	61,998	154,509	6,798	22,728	(13,675)	309,593
Total capitalization and liabilities	\$ 492,087	\$ 126,583	\$ 163,778	\$ 1,272,342	\$ 2,233,685	\$ 236,116	\$ 36,994	\$ (23,214)	\$ 4,538,371

Segment Footnote - Condensed Combined Statement of Operations*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Three Months Ended June 30, 2018*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 38,462	\$ 13,168	\$ 11,621	\$ 52,687	\$ 69,133	\$ 8,636	\$ -	\$ -	\$ 193,707
Intercompany revenues	712	1,476	-	310	320	874	-	(3,692)	-
Gross operating revenues	39,174	14,644	11,621	52,997	69,453	9,510	-	(3,692)	193,707
Operating expenses:									
Cost of goods sold	13,062	7,380	3,584	-	-	200	-	(3,105)	21,121
Operations and maintenance	16,840	4,691	2,238	19,664	19,558	5,426	(89)	(565)	67,763
Depreciation and amortization	6,032	1,295	1,301	10,600	19,939	1,493	-	-	40,660
Loss (gain) on divestiture	-	-	-	-	-	(1,533)	-	-	(1,533)
Taxes	2,180	300	755	4,464	6,429	596	116	-	14,840
Total operating expenses	38,114	13,666	7,878	34,728	45,926	6,182	27	(3,670)	142,851
Operating income (loss)	1,060	978	3,743	18,269	23,527	3,328	(27)	(22)	50,856
Other income (expense), net:									
Interest income	109	30	49	187	787	36	6	(6)	1,198
Other	(310)	-	-	102	2	60	(710)	-	(856)
Total other income (expense), net	(201)	30	49	289	789	96	(704)	(6)	342
Income (loss) before equity in losses of affiliates and interest charges	859	1,008	3,792	18,558	24,316	3,424	(731)	(28)	51,198
Equity in losses of affiliates	-	-	-	-	-	(3,711)	-	-	(3,711)
Interest charges:									
Interest on long-term debt	2,814	971	535	12,098	22,023	598	6	(6)	39,039
Other interest, including net discount (premium) amortization	261	(170)	(242)	(534)	(3,663)	177	6	-	(4,165)
Total interest charges	3,075	801	293	11,564	18,360	775	12	(6)	34,874
Income (loss) from continuing operations	(2,216)	207	3,499	6,994	5,956	(1,062)	(743)	(22)	12,613
Loss from discontinued operations	-	-	-	-	-	-	(916)	22	(894)
Net income (loss)	\$ (2,216)	\$ 207	\$ 3,499	\$ 6,994	\$ 5,956	\$ (1,062)	\$ (1,659)	\$ -	\$ 11,719

Segment Footnote - Condensed Combined Statement of Operations*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Three Months Ended June 30, 2017*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 37,651	\$ 15,089	\$ 10,785	\$ 50,791	\$ 64,721	\$ 7,807	\$ -	\$ -	\$ 186,844
Intercompany revenues	283	804	-	205	161	235	-	(1,688)	-
Gross operating revenues	37,934	15,893	10,785	50,996	64,882	8,042	-	(1,688)	186,844
Operating expenses:									
Cost of goods sold	11,415	8,758	3,500	-	-	161	-	(1,345)	22,489
Operations and maintenance	16,871	5,024	1,943	19,841	20,147	4,379	(129)	(333)	67,743
Depreciation and amortization	6,233	1,263	1,536	10,501	16,910	1,394	-	-	37,837
Loss (gain) on divestiture	-	-	-	-	-	(380)	-	-	(380)
Taxes	1,454	412	428	2,754	5,700	397	153	-	11,298
Total operating expenses	35,973	15,457	7,407	33,096	42,757	5,951	24	(1,678)	138,987
Operating income (loss)	1,961	436	3,378	17,900	22,125	2,091	(24)	(10)	47,857
Other income (expense), net:									
Interest income	34	12	7	597	68	67	21	(25)	781
Other	-	-	-	72	180	91	(594)	-	(251)
Total other income (expense), net	34	12	7	669	248	158	(573)	(25)	530
Income (loss) before equity in earnings of affiliates and interest charges	1,995	448	3,385	18,569	22,373	2,249	(597)	(35)	48,387
Equity in earnings of affiliates	-	-	-	-	-	111	-	-	111
Interest charges:									
Interest on long-term debt	2,972	1,027	585	12,365	20,991	701	21	(21)	38,641
Other interest including net discount (premium) amortization	271	(174)	(263)	(428)	(7,299)	161	8	(6)	(7,730)
Total interest charges	3,243	853	322	11,937	13,692	862	29	(27)	30,911
Income (loss) from continuing operations	(1,248)	(405)	3,063	6,632	8,681	1,498	(626)	(8)	17,587
Loss from discontinued operations	-	-	-	-	-	-	(1,052)	8	(1,044)
Net income (loss)	\$ (1,248)	\$ (405)	\$ 3,063	\$ 6,632	\$ 8,681	\$ 1,498	\$ (1,678)	\$ -	\$ 16,543

Segment Footnote - Condensed Combined Statement of Operations*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Nine Months Ended June 30, 2018*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$ 229,779	\$ 53,311	\$ 22,591	\$ 147,819	\$ 208,783	\$ 26,572	\$ -	\$ -	\$ 688,855
Intercompany revenues	2,192	2,886	-	688	775	2,261	-	(8,802)	-
Gross operating revenues	231,971	56,197	22,591	148,507	209,558	28,833	-	(8,802)	688,855
Operating expenses:									
Cost of goods sold	105,001	28,503	7,026	-	-	1,600	-	(7,159)	134,971
Operations and maintenance	48,536	13,858	6,140	57,035	56,123	13,741	(136)	(1,579)	193,718
Depreciation and amortization	17,917	3,867	4,149	31,588	57,946	4,293	-	-	119,760
Loss (gain) on divestiture	-	-	-	-	-	(1,533)	-	-	(1,533)
Taxes	7,326	1,138	1,588	11,383	18,541	1,582	310	-	41,868
Total operating expenses	178,780	47,366	18,903	100,006	132,610	19,683	174	(8,738)	488,784
Operating income (loss)	53,191	8,831	3,688	48,501	76,948	9,150	(174)	(64)	200,071
Other income (expense), net:									
Interest income	217	66	105	790	1,922	138	141	(32)	3,347
Other	(310)	-	-	636	85	112	(1,567)	-	(1,044)
Total other income (expense), net	(93)	66	105	1,426	2,007	250	(1,426)	(32)	2,303
Income (loss) before equity in losses of affiliates and interest charges	53,098	8,897	3,793	49,927	78,955	9,400	(1,600)	(96)	202,374
Equity in losses of affiliates	-	-	-	-	-	(5,745)	-	-	(5,745)
Interest charges:									
Interest on long-term debt	8,605	2,912	1,604	36,455	66,212	1,919	32	(32)	117,707
Other interest, including net discount (premium) amortization	726	(512)	(732)	(1,500)	(13,028)	514	18	-	(14,514)
Total interest charges	9,331	2,400	872	34,955	53,184	2,433	50	(32)	103,193
Income (loss) from continuing operations	43,767	6,497	2,921	14,972	25,771	1,222	(1,650)	(64)	93,436
Loss from discontinued operations	-	-	-	-	-	-	(2,551)	64	(2,487)
Net income (loss)	\$ 43,767	\$ 6,497	\$ 2,921	\$ 14,972	\$ 25,771	\$ 1,222	\$ (4,201)	\$ -	\$ 90,949

Segment Footnote - Condensed Combined Statement of Operations*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Nine Months Ended June 30, 2017*

	Gas	Steam	Chilled Water	Water	Waste- water	Resources	Other	Elimin- ations	Total
Operating revenues									
Customer revenues	\$207,954	\$51,451	\$22,313	\$ 144,643	\$191,332	\$27,172	\$ -	\$ -	\$ 644,865
Intercompany revenues	1,758	1,361	-	407	454	7,007	-	(10,987)	-
Gross operating revenues	209,712	52,812	22,313	145,050	191,786	34,179	-	(10,987)	644,865
Operating expenses:									
Cost of goods sold	86,577	27,084	6,946	-	-	8,917	-	(9,833)	119,691
Operations and maintenance	49,777	14,428	6,163	56,064	60,195	13,172	(264)	(1,133)	198,402
Depreciation and amortization	18,684	3,737	4,581	31,289	50,577	4,550	-	-	113,418
Loss (gain) on divestiture	14,220	-	-	-	-	(3,941)	-	-	10,279
Taxes	6,516	1,139	1,301	9,982	16,317	1,196	318	-	36,769
Total operating expenses	175,774	46,388	18,991	97,335	127,089	23,894	54	(10,966)	478,559
Operating income (loss)	33,938	6,424	3,322	47,715	64,697	10,285	(54)	(21)	166,306
Other income (expense), net:									
Interest income	61	27	12	1,565	132	209	65	(69)	2,002
Other	(1)	7	-	1,879	(138)	73	(1,531)	-	289
Total other income (expense), net	60	34	12	3,444	(6)	282	(1,466)	(69)	2,291
Income (loss) before equity in earnings of affiliates and interest charges	33,998	6,458	3,334	51,159	64,691	10,567	(1,520)	(90)	168,597
Equity in earnings of affiliates	-	-	-	-	-	394	-	-	394
Interest charges:									
Interest on long-term debt	9,284	3,117	1,785	37,455	63,224	1,653	61	(61)	116,518
Other interest including net discount (premium) amortization	1,047	(455)	1,765	(1,364)	(19,897)	445	21	(9)	(18,447)
Total interest charges	10,331	2,662	3,550	36,091	43,327	2,098	82	(70)	98,071
Income (loss) from continuing operations	23,667	3,796	(216)	15,068	21,364	8,863	(1,602)	(20)	70,920
Loss from discontinued operations	-	-	-	-	-	-	(2,861)	20	(2,841)
Net income (loss)	\$ 23,667	\$ 3,796	\$ (216)	\$ 15,068	\$ 21,364	\$ 8,863	\$ (4,463)	\$ -	\$ 68,079

Segment Footnote - Condensed Combined Statement of Cash Flows*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For the Nine Months Ended June 30, 2018*

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Total
Net cash provided by (used in) operating activities	\$ 69,974	\$ 10,109	\$ 2,792	\$ 43,437	\$ 49,801	\$ 11,348	\$ (12,189)	\$ 175,272
Investing Activities:								
Construction expenditures	(18,346)	(4,963)	(1,405)	(41,182)	(150,581)	(5,323)	(5,797)	(227,597)
Purchase of investment securities	(19,592)	(7,123)	(5,001)	(52,181)	(31,318)	-	-	(115,215)
Sale and maturity of investment securities	33,527	9,304	6,555	47,825	117,684	-	-	214,895
Divestiture proceeds, net of expenses	-	-	-	-	-	2,091	-	2,091
Acquisition of business, net of cash acquired	-	-	-	-	-	(3,364)	-	(3,364)
Other investing activities	(37,481)	-	(20,757)	(609)	(353)	36,535	25,018	2,353
Net cash (used in) provided by investing activities	(41,892)	(2,782)	(20,608)	(46,147)	(64,568)	29,939	19,221	(126,837)
Financing Activities:								
Proceeds from bank line of credit	-	-	-	-	20,000	500	-	20,500
Principal payments of long-term debt and bond refunding	(26,060)	(5,301)	(4,309)	(14,935)	(39,563)	(34,227)	-	(124,395)
Bond issuance costs	-	-	-	-	(33)	(3)	-	(36)
Contributions in aid of construction	-	-	-	1,920	4,895	8	-	6,823
Other financing activities	(407)	-	-	-	-	-	-	(407)
Net cash used in financing activities	(26,467)	(5,301)	(4,309)	(13,015)	(14,701)	(33,722)	-	(97,515)
Net change in cash and cash equivalents	1,615	2,026	(22,125)	(15,725)	(29,468)	7,565	7,032	(49,080)
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	\$ 97,994	\$ 13,476	\$ 18,323	\$ 37,471	\$ 24,795	\$ 35,160	\$ 23,333	\$ 250,552

Segment Footnote - Condensed Combined Statement of Cash Flows*Citizens Energy Group and Subsidiary and CWA Authority, Inc.**(In Thousands)**For The Nine Months Ended June 30, 2017*

	Gas	Steam	Chilled Water	Water	Waste- Water	Resources	Other	Total
Net cash provided by (used in) operating activities	\$ 45,087	\$ 4,275	\$ 7,713	\$ 49,741	\$ 55,933	\$ 1,966	\$ (9,219)	\$ 155,496
Investing Activities:								
Construction expenditures	(14,189)	(3,467)	(1,929)	(26,437)	(146,910)	(5,408)	(5,057)	(203,397)
Purchase of investment securities	(20,290)	(6,259)	(4,825)	(52,076)	(87,418)	-	-	(170,868)
Sale and maturity of investment securities	22,657	9,209	6,452	47,631	107,936	-	-	193,885
Divestiture proceeds, net of expenses	12,242	-	-	-	-	35,619	-	47,861
Other investing activities	148	-	(1,018)	1,249	-	(3,580)	8,352	5,151
Net cash provided by (used in) investing activities	568	(517)	(1,320)	(29,633)	(126,392)	26,631	3,295	(127,368)
Financing Activities:								
Proceeds from bank line of credit	-	-	-	-	-	3,700	-	3,700
Repayment of bank line of credit	-	-	-	(3,100)	(80,000)	(1,000)	-	(84,100)
Principal payments of long-term debt and bond refunding	(73,385)	(35,270)	(34,770)	(270,581)	(34,531)	(13,327)	-	(461,864)
Proceeds from bond refunding	59,441	30,025	30,531	259,672	-	-	-	379,669
Bond issuance costs	(485)	(194)	(201)	(983)	(255)	-	-	(2,118)
Contributions in aid of construction	-	-	-	896	5,105	(1,312)	-	4,689
Other financing activities	(527)	-	-	-	-	-	-	(527)
Net cash used in financing activities	(14,956)	(5,439)	(4,440)	(14,096)	(109,681)	(11,939)	-	(160,551)
Net change in cash and cash equivalents	30,699	(1,681)	1,953	6,012	(180,140)	16,658	(5,924)	(132,423)
Cash and cash equivalents at beginning of period	90,056	11,858	34,649	22,405	247,062	9,884	20,328	436,242
Cash and cash equivalents at end of period	\$ 120,755	\$ 10,177	\$ 36,602	\$ 28,417	\$ 66,922	\$ 26,542	\$ 14,404	\$ 303,819

During fiscal 2017, the Board of Directors declared that an \$18 million contribution would be made to Resources for the purpose of contributing it to CWU, using available funds from Chilled Water. Payment was made in full in November 2017 and is reflected in the financial statements included herein.

6. MANUFACTURING DISCONTINUATION OF PRODUCTION 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. The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) at June 30, 2018 and September 30, 2017, are as follows (in thousands):

	June 30, 2018	September 30, 2017
Current assets	\$ 1,128	\$ 504
Deferred charges and other non-current assets	3	-
Total assets	<u>\$ 1,131</u>	<u>\$ 504</u>
Retained earnings and AOCI	\$ (68,093)	\$ (97,535)
Retirement benefit and other long-term liabilities	65,707	71,635
Intercompany liability	-	23,151
Current liabilities	3,517	3,253
Total capitalization and liabilities	<u>\$ 1,131</u>	<u>\$ 504</u>

For the nine months ended June 30, 2018 and 2017, Discontinued Operations operating expenses were \$2.6 million and \$1.8 million, respectively. Approximately \$9.5 million of cash was provided by Gas to Discontinued Operations during fiscal year 2017, and an additional \$8.7 million during the nine months ended June 30, 2018, to settle a portion of the liabilities. Additional cash funding from Gas to settle liabilities may be provided to Discontinued Operations in future years.

Activity for the nine months ended June 30, 2018 for the asset retirement obligation liability is as follows (in thousands):

Asset retirement obligation at September 30, 2017	\$ 66,195
Accretion expense	1,869
Remediation liabilities settled	(7,188)
Asset retirement obligation at June 30, 2018	<u>\$ 60,876</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 may result in changes to the overall site remediation plan and timeline. Accordingly, Citizens anticipates reviewing its asset retirement obligation during the fourth quarter of fiscal 2018 to determine if the intended use by the City would necessitate a change in its estimated liability.

7. RATE AND REGULATORY MATTERS

Gas

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

On April 18, 2018, Citizens Gas filed a petition and supporting testimony requesting approval of an agreement entered into under Rate 30 of its IURC approved tariff. Pursuant to the agreement, Citizens Gas would provide gas transportation service to an electric generation facility owned by Indianapolis Power & Light Company at a negotiated rate. On June 20, 2018, the Office of Utility Consumer Counselor (OUCC) filed testimony arguing the agreement did not meet certain requirements of Rate 30 and recommending disapproval of the agreement. On July 11, 2018, Citizens Gas filed rebuttal testimony addressing the OUCC's arguments and explaining why the agreement meets the requirements of Rate 30. A hearing before the IURC was held August 14, 2018.

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. A hearing before the IURC is scheduled for August 16, 2018.

Citizens Thermal Steam

The steam utility's most recent general rate case order was issued by the IURC in November 2016, superseding the order that was effective May 2014.

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

Water

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

Wastewater

The wastewater utility's most recent general rate case order was issued by the IURC in July 2016, superseding the order that was effective May 2014.

In September 2015, CWA filed a petition with the IURC requesting, among other things, a two-step increase in base rate revenues. On March 8, 2016, the parties filed a settlement agreement with the IURC reflecting a two-step increase of \$47.8 million for the first step and of \$13.5 million for the second step. On July 18, 2016, the IURC issued an Order (the 2016 Wastewater Order) authorizing a step 1 rate increase amounting to \$47.7 million of additional revenue or 21.5% and a step 2 rate increase amounting to \$13.5 million of additional revenue or 5.0%. Recovery of debt service on all outstanding debt of the Wastewater System plus the CWA bonds expected to be issued in 2016 (the Series 2016 A, B and C bonds, respectively) was included in the step 1 increase and debt service on the CWA bonds expected to be issued in fiscal year 2017 (the Series 2017A bonds) was included in the step 2 increase in the 2016 Wastewater Order. The step 1 rate increase was implemented effective July 20, 2016 and was reduced by \$2.7 million effective November 4, 2016, since the actual debt service on the CWA bonds issued in 2016 was \$2.7 million less than the amount assumed in the 2016 Wastewater Order. The step 2 increase was implemented effective August 1, 2017 and was reduced by \$1.7 million effective September 1, 2017, since the actual debt service on the Series 2017A bonds was \$1.7 million less than the amount assumed in the 2016 Wastewater Order.

On September 28, 2017, CWA filed a petition with the IURC requesting approval to implement a "System Integrity Adjustment" charge, which is a charge authorized under a law enacted in 2016 by the Indiana General Assembly designed 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 a System Integrity Adjustment 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. CWA recorded the \$6.1 million System Integrity Adjustment in operating revenue along with a corresponding regulatory asset representing the amount to be recovered from its non-industrial customers. On December 28, 2017, the IURC issued an order finding that CWA's proposed System Integrity Adjustment was properly calculated and approving it for implementation. The new rates implementing the System Integrity Adjustment became effective January 1, 2018.

Pursuant to obtaining an approved System Integrity Adjustment, CWA is obligated to file for a change in its adjustment amount every twelve months for four annual periods or until the IURC issues an order in a general rate case proceeding, whichever comes first. CWA must file a petition for a change in its adjustment amount no later than October 29, 2018, and has recorded a \$10.7 million System Integrity Adjustment related to the next eligible period (ending July 31, 2018) in the June 30, 2018 condensed combined financial statements.

Resources - Westfield Gas

Westfield Gas's most recent general rate case order was issued by the IURC in April 2017, superseding the order that was effective in 2010.

Westfield Gas filed a base rate case petition on December 30, 2015. On June 17, 2016, Westfield Gas filed its case in chief testimony in support of a proposed increase to total revenues as well as approval to extend its energy efficiency program portfolio and to continue its decoupling mechanism. On April 26, 2017, the IURC issued an order approving a settlement agreement entered into by Westfield Gas and the OUCC without any material modifications. The IURC Order authorizes Westfield Gas to implement new rates and charges to effect an increase to operating revenues of \$0.1 million or 2.85%. The Order also approves a continuation of Westfield Gas's energy efficiency program portfolio and decoupling mechanism through December 31, 2019.

Resources - Westfield Water

Westfield Water's most recent rate order was issued by the IURC in November 2013, and authorized rate increases of 5%, 3%, and 2% effective January 1, 2014, 2015, and 2016, respectively.

On June 4 and 5, 2018, Westfield Water filed a petition and supporting testimony requesting approval to issue long-term debt securities in an aggregate amount not to exceed \$20,000,000 and incur up to \$5,000,000 in aggregate principal amount of debt in the form of a revolving credit facility. Westfield Water would use the proceeds from the long-term debt issuance to refinance existing long-term debt, pay off the amount borrowed under an existing revolving credit facility and fund a portion of the utility's ongoing capital needs. Any proceeds from the new revolving credit facility will be used for internal working capital purposes. A hearing before the IURC is scheduled for September 17, 2018.

Resources - Westfield Wastewater

Westfield Wastewater's most recent general rate case order was issued by the IURC in May 2017, superseding the order that was effective March 2014.

On August 12, 2016, Westfield Wastewater filed with the IURC a base rate case petition and case in chief testimony in support thereof seeking approval of an increase to total revenues. On May 31, 2017, the IURC issued an order approving a settlement agreement entered into by Westfield Wastewater and the OUCC and authorizing Westfield Wastewater to implement revised rates and charges designed to increase operating revenues by approximately \$895 thousand or 9.2%. Revised rates and charges for wastewater utility service in compliance with the settlement agreement and order were implemented effective June 1, 2017.

On August 1, 2017, Westfield Wastewater filed a petition requesting approval to implement a system development charge ("SDC"). Westfield Wastewater proposed the SDC would initially be established as \$1,000 per equivalent dwelling unit ("EDU") and increase to \$2,000 six months after it is approved. The SDC would be assessed to developers or others constructing new buildings that are connected to the wastewater collection system and provide the utility additional capital to reduce the amount of debt issued to fund needed improvements. Funds generated by the SDC would be accounted for as contributions in aid of construction and be deducted from the rate base Westfield Wastewater is authorized to earn a return on in future rate cases. On November 20, 2017, the IURC conducted a hearing. On November 28, 2017, Westfield Wastewater and the OUCC submitted an agreed proposed order recommending implementation of the SDC as proposed in the petition. On December 28, 2017, the IURC issued an order substantially based on the agreed proposed order, authorizing the implementation of an initial SDC of \$1,000 per EDU and an increased SDC of \$2,000 per EDU to be effective on July 1, 2018.

On June 4 and 5, 2018, Westfield Wastewater filed a petition and supporting testimony requesting approval to issue long-term debt securities in an aggregate amount not to exceed \$25,000,000 and incur up to \$5,000,000 in aggregate principal amount of debt in the form of a revolving credit facility. Westfield Wastewater would use the proceeds from the long-term debt issuance to refinance existing long-term debt, pay off the amount borrowed under an existing revolving credit facility and fund a portion of the utility's ongoing capital needs. Any proceeds from the new revolving credit facility will be used for internal working capital purposes. A hearing before the IURC is scheduled for September 17, 2018.

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 June 22, 2018, the OUCC filed testimony proposing certain adjustments to the depreciation study filed by Citizens, which result in lower depreciation rates than the rates proposed by Citizens. The OUCC also recommended that each Citizens utility not be permitted to implement updated depreciation rates until an

order in its next base rate case is issued. On July 13, 2018, Citizens filed rebuttal testimony arguing that the OUCC's proposed adjustments to Citizens' depreciation study should be rejected. Citizens' rebuttal testimony also supports its position that each utility should be permitted to implement revised depreciation rates outside a base rate case. A hearing before the IURC is scheduled for September 11, 2018.

8. 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 6 for additional information regarding demolition and environmental remediation of the former Indianapolis Coke Manufacturing facility.

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 \$7.8 million and \$8.4 million at June 30, 2018 and September 30, 2017, 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, EPA, and the U.S. District Court entered into a Consent Decree in 2006 that established a LTCP to address the System's overloaded combined sewer system. The plan established a twenty year schedule for the required Wastewater System improvements.

Upon acquisition of the Wastewater System in August 2011, CWA Authority (the Authority) assumed the City's obligations under the order of the United States 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 a rain event to prevent overflows from entering area rivers and streams. The stored flows will be pumped to the Southport Advanced Wastewater Treatment Plant which was expanded as a part of this Consent Decree. The Belmont plant was also expanded as part of the Consent Decree and this work has been completed. During fiscal year 2014, mining of the 7.9 mile Deep Rock Tunnel Connector was completed. As part of the DRTC project, approximately 1.7 miles of additional deep tunnel were mined for the Eagle Creek tunnel extension in fiscal year 2015. Mining for the White River and Lower Pagues Run tunnels began in September 2016, and approximately 1.9 miles were mined during fiscal year 2017. On December 29, 2017, the first 10 miles of the DigIndy Tunnel system were opened and available for use. 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. Shea-Kiewit Joint Venture has a contract with Citizens to complete the remaining eighteen miles of tunnel and drop shafts.

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.

C. Commitments

Suez North America Management Contract

In connection with the Wastewater System acquisition, CWA entered into an Assignment and Assumption Agreement with the City whereby CWA assumed all of the rights and obligations of the City under the Management Agreement between the City and United Water Services Indiana LLC (now known as Suez North America, "Suez"), pursuant to which Suez managed the Wastewater System and the stormwater system for the City of Indianapolis. The contract expired on January 1, 2017. As a result, Citizens began operating and maintaining the wastewater system on that date.

Inventory Retainer and Transportation Agreement

In 2017, Gas reached an agreement with a third party to retain a designated amount of inventory at the third party's location which may be called upon by Gas for the purpose of meeting severe season peaking needs, balancing needs, or other purposes as set forth in the terms and conditions of the agreement. In exchange for the services rendered, Gas will pay an annual retainage fee to the third party of \$4.45 million for a period of ten years. As part of the agreement Gas is guaranteed to receive a minimum of \$1.5 million annual revenue from transportation of gas to the third party.

9. SALE OF SUBSIDIARY AND LNG ASSETS

On November 16, 2016, the Resources Board of Directors approved in principle the sale of the ownership units of LNG Ind. In conjunction with that sale, the Citizens Board of Directors approved the sale of the LNG North Facility owned by Gas. On December 28, 2016, the divestiture was completed. Pursuant to the divestiture:

- Gas is obligated to complete certain capital projects currently in progress for the LNG North facility, up to a maximum amount of \$1.9 million. Such costs have been accrued and are reflected in the Condensed Combined Statements of Financial Position under "Other current liabilities".
- Gas received net proceeds of \$12.2 million as payment for the plant assets of Gas' LNG North Facility including the capital projects currently in progress.
- Gas recognized a net loss on the sale of plant assets of approximately \$14.2 million, recorded in "Loss on divestiture" in the Condensed Combined Statements of Operations.
- Resources received net proceeds of \$24.8 million, net of cash paid for third-party indebtedness, transaction expenses, estimated working capital, and escrow.

- Resources issued a \$4.0 million non-amortizing, non-interest bearing seller's note with a maturity of five years. The note has been recorded in "Investments, Other" in the Condensed Combined Statements of Financial Position.
- Resources recognized an initial gain on the sale of approximately \$4.5 million, recorded in "Loss on divestiture" on the Condensed Combined Statements of Operations. During 2017, Resources made a \$0.9 million payment in full satisfaction of a post-closing working capital adjustment to finalize the transaction and received payment of \$0.4 million related to reimbursement of certain pre-acquisition expenses. Accordingly, for the twelve months ended September 30, 2017, Resources recognized a net gain on the sale of \$3.9 million.

10. SUBSEQUENT EVENTS

Management has considered the impact of subsequent events through August 15, 2018, the date at which these condensed combined financial statements were issued.