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MANAGEMENT DISCUSSION & FINANCIAL REPORT 2017

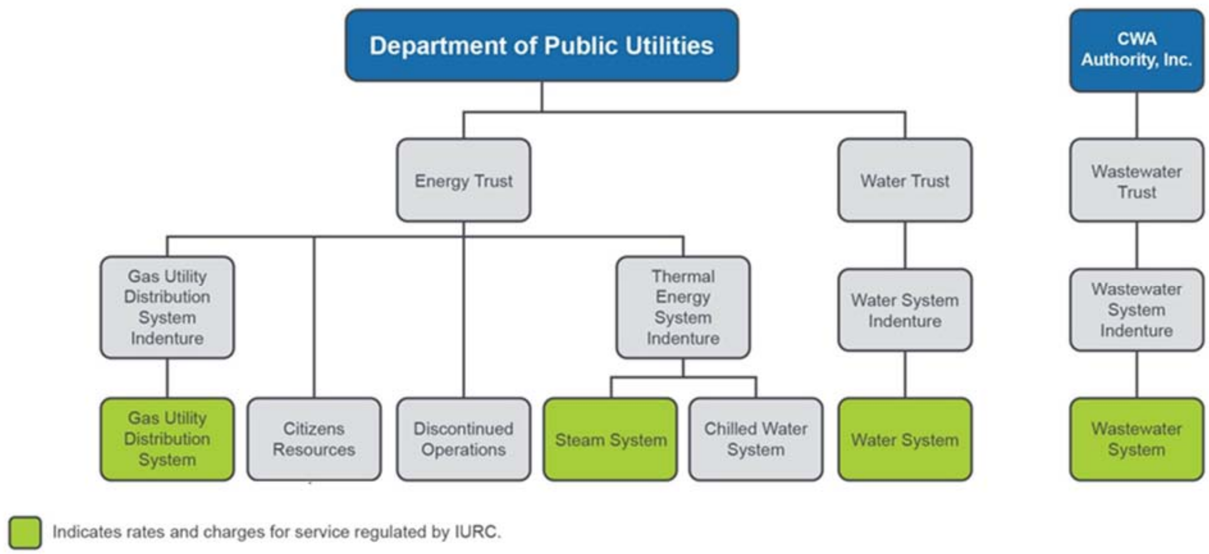
MANAGEMENT DISCUSSION AND ANALYSIS

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.

Pursuant to the sale of the LNG Indy subsidiary as discussed in Note 13, the entity formerly known as Kinetrex Energy Holding Company, LLC was renamed CESCO Diversified Business Enterprises, LLC and Kinetrex Energy Exploration and Production, LLC has been renamed Citizens Resources Production, LLC.

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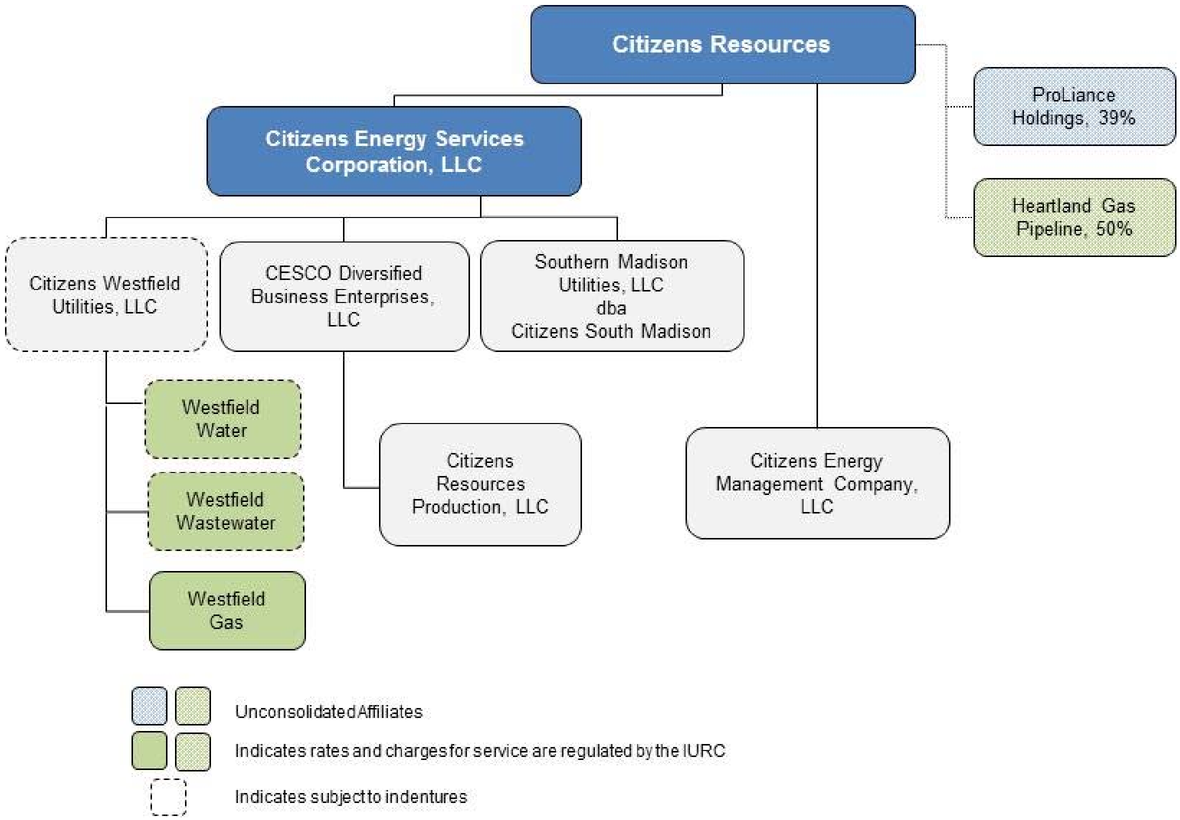
[1] The 1986 Gas Utility System (GUS) bonds are debt of the Gas Utility Distribution System (GUDS). Debt service on the GUS bonds is included in the revenue requirements for determining the rates and charges of the GUDS by the IURC. The bonds issued under the GUS Indenture are senior to the bonds issued under the GUDS Indenture. Security provided under the GUS Indenture includes the net revenues after payment of operating expenses of the GUDS and Discontinued Operations as well as any dividends paid by Citizens Resources. However, as explained below the corporate structure of Citizens Resources should limit the GUS exposure to liabilities of Citizens Resources and its subsidiaries.

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

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



FINANCIAL RESULTS

Segment Results

The tables below summarize the financial results for each segment (in millions) for the twelve months ended September 30, 2017 and 2016. For a more detailed understanding of these summarized results, see Note 8 to the combined financial statements.

SHARED SERVICES

	2017	2016	Change
Shared Services Expenses	$ 107.5	$ 106.9	$ 0.6

Fiscal Year 2017 Compared with 2016
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.

Shared services expenses increased $0.6 million for 2017, due primarily to higher labor and technology costs which were largely offset by lower pension and post-employment expenses. These costs have been allocated to the appropriate business units and are reflected in the explanations that follow.

GAS

	2017	2016	Change
Operating revenues	$ 234.4	$ 227.4	$ 7.0
Cost of goods sold	92.3	88.2	4.1
Margin	142.1	139.2	2.9
Other operating expenses	114.4	113.7	0.7
Operating income	27.7	25.5	2.2
Other income (expense), net	(0.2)	(0.5)	0.3
Interest charges	13.4	14.5	(1.1)
Segment income	$ 14.1	$ 10.5	$ 3.6
Volume sales, million Dth			
Retail	24.2	24.7	(0.5)
Transportation	20.3	18.0	2.3
Special contracts	15.9	22.9	(7.0)
Cost of gas sold, per Dth	$ 3.81	$ 3.57	$ 0.24
Heating degree days	4,284	4,444	(160)

Fiscal Year 2017 Compared with 2016

Margin – Gas margin was $2.9 million higher largely due to the improvement resulting from discontinuation of the decoupling mechanism in December 2015.

Other operating expenses – The increase of $0.7 million is primarily driven by the $14.2 million loss recognized on the sale of LNG North plant assets (see Note 13 to the combined financial statements), and expenses related to a peaking gas inventory retainer and transportation agreement (see Note 12C to the combined financial statements). These increases are largely offset by lower shared services expense allocations and employee benefit expenses in the current year and a $9.4 million accrual for environmental remediation costs recognized in the prior year.

Interest charges – The decrease of $1.1 million is principally attributed 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 (see Note 4 to the combined financial statements).

STEAM

	2017	2016	Change
Operating revenues	$ 68.5	$ 65.7	$ 2.8
Cost of goods sold	36.3	34.2	2.1
Margin	32.2	31.5	0.7
Other operating expenses	25.9	26.4	(0.5)
Operating income	6.3	5.1	1.2
Other income (expense), net	0.1	-	0.1
Interest charges	3.5	4.1	(0.6)
Segment income	$ 2.9	$ 1.0	$ 1.9
Volume sales, million therms	58.6	59.7	(1.1)
Heating degree days	4,284	4,444	(160)

Fiscal Year 2017 Compared with 2016

Margin – Steam margin was $0.7 million higher than prior year largely due to $3.0 million of reduced credits passing through the Operating Expense Rate Adjustment (OPERA) mechanism (See Note 11A – Citizens Thermal Steam, to the combined financial statements), partially offset by a $1.9 million base rate decrease effective December 1, 2016.

Other operating expenses – The decrease of $0.5 million is principally due to reduced shared services expense allocations.

Interest charges – The decrease of $0.6 million was primarily driven by lower outstanding debt as a result of principal payments and lower interest expense resulting from refunding of the Series 2008 bonds in November 2016 (see Note 4 to the combined financial statements).

CHILLED WATER

	2017	2016	Change
Operating revenues	$ 36.6	$ 37.5	$ (0.9)
Cost of goods sold	12.4	11.7	0.7
Margin	24.2	25.8	(1.6)
Other operating expenses	16.7	16.7	-
Operating income	7.5	9.1	(1.6)
Other income (expense), net	-	-	-
Interest charges	3.8	2.3	1.5
Segment income	$ 3.7	$ 6.8	$ (3.1)
Volume sales, million ton hours	137.1	143.9	(6.8)
Cooling degree days	1,167	1,411	(244)

Fiscal Year 2017 Compared with 2016

Margin – Chilled Water margin was $1.6 million lower largely attributed to decreased volume sold due to milder weather compared with the prior year.

Interest charges – $1.5 million higher than prior period principally due to the loss on extinguishment of the Series 2008 Bonds, partially offset by lower interest expense resulting from the refunding of that Series in November 2016 (see Note 4 to the combined financial statements).

WATER

	2017	2016	Change
Operating revenues	$ 203.3	$ 187.4	$ 15.9
Other operating expenses	132.0	133.4	(1.4)
Operating income	71.3	54.0	17.3
Other income (expense), net	3.7	2.0	1.7
Interest charges	48.3	49.4	(1.1)
Segment income	$ 26.7	$ 6.6	$ 20.1
Volume sales, billion gallons	38.1	38.0	0.1

Fiscal Year 2017 Compared with 2016

Operating revenues – Increased revenues of $15.9 million are primarily attributed to the rate increase which became effective in April 2016 (see Note 11A – Water, to the combined financial statements).

Operating expenses – The $1.4 million decrease was largely driven by lower shared services expense allocations, post-employment benefit expenses, and property taxes. These decreases were partially offset by increases in business insurance and contract services.

Other income (expenses), net – The $1.7 million increase was attributable to a termination payment received related to an investment securities agreement.

Interest charges – The $1.1 million decrease was primarily due to lower interest expense resulting from refunding of various Series 2011 bonds in November 2016 (see Note 4 to the combined financial statements).

WASTEWATER

	2017	2016	Change
Operating revenues	$ 263.7	$ 221.3	$ 42.4
Other operating expenses	169.3	158.5	10.8
Operating income	94.4	62.8	31.6
Other income (expense), net	0.9	0.8	0.1
Interest charges	58.8	52.6	6.2
Segment income	$ 36.5	$ 11.0	$ 25.5
Treatment volume sales, billion gallons	34.2	33.8	0.4
Strength surcharge, million pounds	37.7	40.2	(2.5)

Fiscal Year 2017 Compared with 2016

Operating revenues – Increased revenues of $42.4 million were principally driven by the rate increase which became effective in July 2016 and a system integrity adjustment of $6.1 million recorded in September 2017 (See Note 11A – Wastewater, to the combined financial statements).

Operating expenses – The $10.8 million increase was primarily due to the following:

- $ 7.9 million of higher shared services expense allocations;
- $ 3.6 million of depreciation expense due to an increase in depreciable assets; and
- $ 3.0 million increased payments in lieu of property taxes (PILOT) per the established PILOT schedule.

These increases were partially offset by a decrease in expenses resulting from in-sourcing operation and maintenance of the wastewater system (see Note 12C to the combined financial statements).

Interest charges – The $6.2 million increase was largely attributable to additional borrowings of long-term debt to support capital projects.

RESOURCES

	2017	2016	Change
Operating revenues	$ 43.0	$ 53.1	$ (10.1)
Cost of goods sold	9.0	16.4	(7.4)
Margin	34.0	36.7	(2.7)
Other operating expenses	21.1	28.0	(6.9)
Operating income	12.9	8.7	4.2
Other income (expense), net	0.2	(2.3)	2.5
Equity in earnings (loss) of affiliates	0.5	0.3	0.2
Interest charges	2.8	3.2	(0.4)
Segment income	$ 10.8	$ 3.5	$ 7.3

Fiscal Year 2017 Compared with 2016

Margin – Margin declined $2.7 million primarily due to the sale of LNG Indy in December 2016 (see Note 13 to the combined financial statements), partially offset by the startup of revenues related to stormwater management activity in January 2017 (see Note 12C to the combined financial statements) and increased margin for the Westfield Utilities.

Operating expenses – $6.9 million lower than prior year as a result of the sale of LNG Indy (see Note 13 to the combined financial statements) and lower expenses at Citizens Resources Production, partially offset by the startup of operating expenses related to stormwater management activity in January 2017 (see Note 12C to the combined financial statements).

Other income (expense), net – $2.5 million higher due to losses on asset disposals recorded in the prior year at subsidiaries of CESCO Diversified Business Enterprises.

Interest charges – $0.4 million lower due to fair value mark-to-market adjustments recorded for interest rate swaps (see Note 10 to the combined financial statements).

OTHER

	2017	2016	Change
Operating revenues	$ -	$ -	$ -
Operating expenses	0.1	0.1	-
Operating income (loss)	(0.1)	(0.1)	-
Other income (expense), net	(1.9)	(1.5)	(0.4)
Interest charges	0.1	-	0.1
Loss from discontinued operations	(2.6)	(3.6)	1.0
Segment income (loss)	$ (4.7)	$ (5.2)	$ 0.5

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.

Fiscal Year 2017 Compared with 2016

Other income (expense), net – $0.4 million higher than 2016 primarily due to increased community investments and energy assistance.

Loss from discontinued operations – Demolition activities completed during fiscal year 2017.

LIQUIDITY AND CAPITAL RESOURCES

Debt and Liquidity

Please see Notes 4 and 5 to the combined financial statements for information regarding the changes to Citizens' and CWA's outstanding debt obligations and liquidity facilities, respectively.

Capital Spending

For the twelve months ended September 30, 2017, capital expenditures, on an accrual basis, increased by $19.4 million to $306.4 million from $287.0 million during the same period last year. This increase is summarized in the table below (in millions). Certain accrued expenditures, including all capitalized interest, have been included in Other for segment presentation of Capitalized Expenditures, while the capitalized 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
2017	**$ 22.9**	**$ 3.2**	**$ 2.1**	**$ 44.1**	**$ 197.3**	**$ 6.5**	**$ 30.3**	**$ 306.4**
2016	24.4	4.7	2.8	28.8	190.1	10.4	25.8	287.0
	$ (1.5)	$ (1.5)	$ (0.7)	$ 15.3	$ 7.2	$ (3.9)	$ 4.5	$ 19.4

Citizens' and CWA's projected capital spending requirement of $293.9 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**	**$ 176.0**	**$ 13.5**	**$ 24.1**	**$ 293.9**

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 $96.4 million at September 30, 2017. Gas expects to meet its capital spending requirements in 2018 through cash flows from operations and the temporary seasonal use of its credit lines (see Note 5 to the combined financial statements).

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 September 30, 2017, cash and cash equivalents of Steam and Chilled Water amounted to $11.4 million and $40.4 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 (see Note 5 to the combined financial statements) 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 $53.2 million at September 30, 2017, including $1.0 million in the construction fund. Water expects to meet its capital spending requirements in 2018 through a combination of cash flows from operations, drawing from the balance in the construction fund, and use of its line of credit (see Note 5 to the combined financial statements). See Note 11A – Water, to the combined financial statements, for a discussion of the Order received on April 20, 2016 in the Water rate case.

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 12A 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 $54.3 million at September 30, 2017, including $6.4 million in the construction fund. Wastewater expects to meet its capital spending requirements in 2018 through a combination of cash flows from operations, drawing from the remaining $6.4 million balance in the construction fund as well as from balances remaining from issuance of the Series 2016C State Revolving Fund (SRF) bonds ($9.6 million) and the Series 2017A SRF bonds ($149.0 million) (both recorded in bond restricted funds) (see Note 4), and its line of credit (see Note 5 to the combined financial statements). See Note 11A – Wastewater, to the 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. See Note 5 to the combined financial statements for additional information on the Westfield Gas, Westfield Water, and Westfield Wastewater lines of credit.

Derivatives and Hedging

Citizens has entered into certain derivative and economic hedging transactions in 2017 and 2016. These transactions are used by Citizens Gas to hedge 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 (see Note 10 to the combined financial statements).

Concurrent with the issuance of Citizens Westfield Utilities, LLC (CWU), Westfield Water, and Westfield Wastewater revenue bonds in March 2014, the entities entered into fixed rate pay interest rate swap agreements with PNC Bank, National Association as the counterparty to effectively fix the interest rates through October 1, 2018. See Note 10 to the combined financial statements for additional information about the interest rate swaps.

Citizens Energy Group and Subsidiary and CWA Authority Inc.

Combined Statements of Financial Position
(In Thousands)

	At September 30, 2017	At September 30, 2016
ASSETS		
Property, plant, and equipment		
Plant in service	$ 6,009,852	$ 5,914,282
Accumulated depreciation	3,244,452	3,133,130
	2,765,400	2,781,152
Construction work in progress	717,867	582,061
Total property, plant, and equipment	3,483,267	3,363,213
Intangible assets, net	65,301	69,004
Investments		
Bond restricted funds	446,937	281,920
Investment in affiliates	16,402	15,835
Other	24,616	33,546
Total investments	487,955	331,301
Current assets		
Cash and cash equivalents	299,632	436,242
Accounts receivable, less allowance for doubtful accounts of $2,411 and $2,741, respectively	70,500	79,022
Accrued utility revenue	23,401	18,836
Natural gas in storage	42,825	42,595
Materials and supplies	10,705	10,969
Other current assets	6,727	4,436
Current assets directly related to discontinued operations	504	294
Total current assets	454,294	592,394
Deferred charges and other non-current assets		
Deferred charges	47,554	24,852
Non-current assets directly related to discontinued operations	-	314
Total deferred charges and other non-current assets	47,554	25,166
TOTAL ASSETS	**$ 4,538,371**	**$ 4,381,078**
CAPITALIZATION AND LIABILITIES		
Capitalization and non-current liabilities		
Retained earnings	$ 327,635	$ 238,029
Accumulated other comprehensive loss	(118,465)	(181,063)
Long-term debt (excluding current maturities)	3,383,224	3,321,192
Retirement benefits	172,923	232,791
Contributions in aid of construction	203,770	181,341
Other long-term liabilities	36,971	30,036
Non-current liabilities directly related to discontinued operations	71,635	84,150
Total capitalization and non-current liabilities	4,077,693	3,906,476
Current liabilities		
Current maturities of long-term debt	99,885	77,649
Short-term borrowings	51,200	138,100
Accounts payable and accrued expenses	220,472	177,968
Accrued taxes	55,433	52,380
Customer deposits and advance payments	21,602	19,749
Other current liabilities	8,833	7,549
Current liabilities directly related to discontinued operations	3,253	1,207
Total current liabilities	460,678	474,602
Commitments and contingencies (see note 12)		
TOTAL CAPITALIZATION AND LIABILITIES	**$ 4,538,371**	**$ 4,381,078**

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

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

Combined Statements of Operations

(In Thousands)

	Fiscal Year Ended September 30, 2017	2016
Operating revenues	$ 836,426	$ 771,156
Operating expenses		
Cost of goods sold	137,971	132,647
Operations and maintenance	265,708	275,350
Depreciation and amortization	152,657	150,056
Loss on divestiture	10,312	-
Taxes	49,577	48,140
Total operating expenses	616,225	606,193
Operating income	220,201	164,963
Other income (expense), net		
Interest income	2,816	2,383
Other	(199)	(3,833)
Total other income (expense), net	2,617	(1,450)
Income before equity in earnings of affiliates and interest charges	222,818	163,513
Equity in earnings of affiliates	481	281
Interest charges		
Interest on long-term debt	155,662	147,242
Other interest, including net premium amortization	(24,936)	(21,178)
Total interest charges	130,726	126,064
Income from continuing operations	92,573	37,730
Loss from discontinued operations	(2,557)	(3,573)
Net income	$ 90,016	$ 34,157

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

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

Combined Statements of Comprehensive Income
(In Thousands)

	Fiscal Year Ended September 30, 2017	2016
Net Income	$ 90,016	$ 34,157
Retirement benefit liability changes:		
Net gain (loss) arising during period	51,109	(38,201)
Amortization of prior service credit	(719)	(612)
Amortization of loss	11,845	9,566
Total retirement benefit liability changes	62,235	(29,247)
Unrealized gain (loss) on available for sale investments	363	(142)
Total other comprehensive income (loss)	62,598	(29,389)
Total Comprehensive Income	$ 152,614	$ 4,768

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

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

Combined Statements of Cash Flows

(In Thousands)

	Fiscal Year Ended September 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 90,016	$ 34,157
Depreciation and amortization	145,817	147,590
Loss on divestiture or sale/impairment of assets	10,415	2,683
Loss on extinguishment of debt	2,332	-
Equity in earnings of affiliates, net of distributions	(481)	(281)
Allowance for doubtful accounts	3,487	4,413
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	1,412	(6,608)
Natural gas in storage	(230)	3,820
Accounts payable and accrued expenses	3,899	3,275
Retirement benefits	2,367	1,083
Other operating activities	(14,988)	1,999
Change in net liabilities of discontinued operations	(247)	4,486
Net cash provided by operating activities	243,799	196,617
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(271,132)	(283,881)
Purchase of investment securities	(386,900)	(239,448)
Sale and maturity of investment securities	221,883	219,153
Divestiture proceeds, net of expenses	47,794	-
Other investing activities	9,277	(524)
Net cash used in investing activities	(379,078)	(304,700)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank line of credit	3,700	112,000
Repayment of bank line of credit	(84,100)	(89,900)
Proceeds from issuance of long-term debt	163,527	375,542
Principal payments of long-term debt and bond refunding	(469,350)	(128,790)
Proceeds from bond refunding	379,669	-
Bond issuance costs	(2,144)	(1,707)
Contributions in aid of construction	7,621	5,239
Other financing activities	(254)	(207)
Net cash (used in) provided by financing activities	(1,331)	272,177
Net change in cash and cash equivalents	(136,610)	164,094
Cash and cash equivalents at beginning of fiscal year	436,242	272,148
Cash and cash equivalents at end of fiscal period	$ 299,632	$ 436,242
Supplemental Cash Flows Information - Interest paid	$ 128,364	$ 131,670
Non-cash Investing and Operating Activities		
Construction work-in-progress accrued at period end	$ 88,276	$ 51,483

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

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

Combined Statements of Equity
(In Thousands)

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at September 30, 2015	**$ 204,282**	**$ (151,674)**	**$ 52,608**
Comprehensive income			
Net income	34,157	-	34,157
Unrealized loss on available-for-sale investments	-	(142)	(142)
Retirement benefit liability changes	-	(29,247)	(29,247)
Total comprehensive income	34,157	(29,389)	4,768
Customer benefit distributions	(410)	-	(410)
Balance at September 30, 2016	**$ 238,029**	**$ (181,063)**	**$ 56,966**
Comprehensive income			
Net income	90,016	-	90,016
Unrealized gain on available-for-sale investments		363	363
Retirement benefit liability changes		62,235	62,235
Total comprehensive income	90,016	62,598	152,614
Customer benefit distributions	(410)	-	(410)
Balance at September 30, 2017	**$ 327,635**	**$ (118,465)**	**$ 209,170**

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

1. NATURE OF OPERATIONS AND PRESENTATION

A. Nature of Operations

Operations of Citizens Energy Group and Subsidiary (Citizens) 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 affiliate joint venture interests 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 (formerly known as Kinetrex Energy Holding Company, LLC) serves as a holding company for Citizens Resources Production, LLC (formerly known as Kinetrex Energy Exploration and Production, LLC), which operates as an oil producer.

B. Basis of Presentation

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.

Certain reclassifications have been made to conform prior period data to the current presentation. These reclassifications had no impact on reported results of operations. A summary of significant reclassifications appears below:

- In accordance with recently adopted accounting guidance (see Note 2R), debt issuance costs are presented in the Combined Statements of Financial Position as a direct deduction from the debt liability.
- Previously separate lines for recoverable gas and fuel costs and prepayments and deposits were combined and are presented in the line item labeled, “Other current assets” in the Combined Statements of Financial Position. Similarly the previously separate line for refundable gas and fuel costs is now combined and presented in the line item labeled, “Other current liabilities”.
- The previously separate line item for recoverable/refundable gas and fuel costs has been combined with and is presented in the line item labeled, “Other operating activities” in the Combined Statements of Cash Flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Use of Estimates

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates. The most significant of such estimates include accrued utility revenue, Thermal contract useful lives, allowance for doubtful accounts, allowance for ProLiance Note Receivable (see Note 2D), impairment charges (see Note 3), asset retirement obligation (Discontinued Operations, see Note 9), and assumptions underlying the actuarial calculations for pension and post-employment liabilities.

B. Property, Plant, and Equipment, Depreciation and Maintenance

Construction costs include costs directly incurred plus overhead allocation relating to payroll, administrative and general costs, and, for certain utility plant, capitalized interest. Depreciation on plant for regulated utilities is computed on a straight-line basis using rates approved by the IURC. Depreciation on Chilled Water and LNG Indy plant is computed on a straight-line basis over the estimated remaining useful lives of the various classes of depreciable plant in service. Depreciation on Citizens Resources Production plant is computed on a straight-line basis over the projected productive lives of the oil wells. Periodic depreciation rate studies include a review of depreciable plant remaining useful lives. Maintenance and repairs of property units are charged to expense as incurred. Citizens and CWA utilize the composite method of depreciation. Accordingly, the original cost of depreciable property and equipment retired or replaced and the cost of removal, less salvage, are charged to accumulated depreciation. In the non-rate regulated entities of Resources, the cost of existing assets retired or otherwise disposed of and the related accumulated depreciation are removed in the year of disposal with the resulting gain or loss reflected in earnings.

Plant in service at September 30 (in thousands):

	2017	2016	Useful Lives
Distribution	**$ 2,043,790**	$ 1,996,523	15 - 65 years
Treatment	**1,692,100**	1,670,706	40 - 50 years
Collection	**1,470,865**	1,408,275	40 years
Source of supply	**199,748**	237,824	50 years
Pumping	**236,649**	153,081	40 - 50 years
Production	**126,397**	124,658	5 - 75 years
General plant	**143,360**	150,780	3 - 50 years
Gas Storage	**34,117**	111,373	33 - 60 years
Transmission	**62,826**	61,062	22 - 60 years
	$ 6,009,852	$ 5,914,282	

Depreciation expense was $148.3 million and $145.7 million for the twelve months ended September 30, 2017 and 2016, respectively.

Interest capitalized represents the cost of borrowed funds used for construction purposes and is charged to major construction projects during the construction period with a corresponding credit to Other Interest Charges. The total amount of interest capitalized was $20.5 million and $18.9 million for the twelve months ended September 30, 2017 and 2016, respectively.

C. Revenue Recognition

Revenue is recorded when earned, either when the product is delivered or when services are performed. Gas, Water, and Wastewater customer billings are rendered on a cycle basis on each working day throughout the month. Westfield Gas, Westfield Water, and Westfield Wastewater customer billings for all rate classes are billed near the end of the calendar month. The estimated revenue for gas, water delivered, and wastewater service since the last customer billing dates to month-end is accrued based on actual demand data for the calendar month. The accrual for unbilled revenues is reversed in the subsequent accounting period when meters are actually read and customers are billed. Meter readings are taken as of month-end for Steam and Chilled Water customers, with billings rendered as of month-end for all such customers. Revenue at LNG Indy is recognized in the period LNG or natural gas is delivered to the customer.

D. Credit Quality and Allowance for Credit Losses of Notes Receivable

Citizens and CWA monitor credit quality and associated risks of notes receivable on an individual basis based on criteria such as financial stability of the party, strength of Citizens' and CWA's contractual position, value and existence of collateral, and collection experience in conjunction with general economic and market conditions. The note receivable from ProLiance, an unconsolidated subsidiary (see Note 3), was found to be partially recoverable and a loss allowance of $3.4 million was recorded for the estimated uncollectible amount of the note in 2014. The note was also reviewed for collectability in September of 2016 and 2017. No additional allowance was recorded in 2016 or 2017. Interest accrued on the ProLiance note was $0.3 million and $0.2 million in 2017 and 2016, respectively. The note receivable relating to the City of Carmel was acquired as part of the water system acquisition on August 26, 2011. The original principal was $22.2 million with a maturity date of December 30, 2025. The City of Carmel has made semi-annual payments on this note at an imputed interest rate of 4.88% annually. In August 2017 the City of Carmel repaid the note and accrued interest in full. The note receivable from LNG Indy was issued pursuant to the divestiture of LNG Indy (see Note 13). The following table presents Citizens' notes receivable, which are recorded in Other Investments on the statements of financial position, whose carrying value approximates fair value, as of September 30, 2017 and 2016 (in thousands):

	Notes Receivable at September 30, 2017		
Description	Balance	Related Allowance	Receivable Net of Allowance
Note Receivable from ProLiance	$ 6,474	$ 3,431	$ 3,043
Note Receivable from LNG Indy	4,000	-	4,000
	$ 10,474	$ 3,431	$ 7,043

Description	Notes Receivable at September 30, 2016 Balance	Related Allowance	Receivable Net of Allowance
Note Receivable from City of Carmel	$ 13,554	$ -	$ 13,554
Note Receivable from ProLiance	6,474	3,431	3,043
	$ 20,028	$ 3,431	$ 16,597

E. Inventory
Material and supplies, maintained at average cost, are recorded as inventory when received and subsequently charged to expense or capitalized to plant when installed. Natural gas in storage is recoverable through gas cost adjustments (see note 2G) and maintained at the weighted average cost of gas. There were no net realizable value adjustments in 2017 and 2016.

F. Taxes
Citizens and CWA are generally subject to payroll, property (in the case of Citizens and its affiliates), payment in lieu of taxes (PILOT) (in the case of CWA), utility receipts (in the case of Citizens), and other miscellaneous taxes. In general, Citizens and CWA are exempt from federal, state and local income taxes as either political subdivisions of the State of Indiana or pursuant to Internal Revenue Code section 115 as applicable. Utility receipts taxes are included in rates charged to customers in all rate regulated business units except Wastewater, which is exempt from utility receipts taxes pursuant to Indiana law.

G. Recoverable (Refundable) Gas and Fuel Costs
The difference between actual gas costs, including unrealized gains and losses and settled amounts associated with Hedging Transaction Costs (formerly known as Citizens' Price Volatility Mitigation Program, see Note 10), and the amounts of gas costs recovered by Gas and Westfield Gas through rates is deferred and recovered (or refunded) through gas cost adjustments (GCA) permitted by the IURC. Gas is authorized to change its GCA factors quarterly as a result of changes in market prices. Gas is authorized to utilize a flex mechanism in its quarterly filings to change its GCA factors within a fixed, known, and measurable range, on a monthly basis, through a Monthly Price Update as a result of changes in market prices. Westfield Gas is authorized to change its GCA factors quarterly as a result of changes in market prices. The difference between actual fuel costs and the amounts of fuel costs recovered by Steam through rates is deferred and recovered (or refunded) through the fuel adjustment clause (FAC) permitted by the IURC. Steam is authorized to change its FAC factors each quarter as a result of changes in market prices.

H. Bond Issuance Costs
Bond premiums, discounts and debt issuance costs are recorded as an offset to the related debt liability and are amortized over the lives of the respective issues through the effective interest method. For regulated business segments, the unamortized portions of bond issuance costs of the refunded bonds are recorded as deferred charges and are amortized over the life of the refunding bond issue.

I. Cash and Cash Equivalents
For purposes of the Combined Statements of Financial Position and Cash Flows, Citizens and CWA consider investments purchased with a maturity of three months or less to be cash equivalents. The carrying value equals fair value for these financial instruments. Included in cash and cash equivalents on the Combined Statements of Financial Position are money market funds of $31.9 million and $222.7 million at September 30, 2017 and 2016, respectively. Approximately $7.4 million of cash and cash equivalents have been designated by management as construction funds and will be used to fund capital expenditures.

J. 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 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 September 30, 2017 and September 30, 2016 (in thousands):

	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	**$ 481,036**	**$ -**	**$ -**
Financial Liabilities:			
Derivative liabilities	**$ -**	**$ 162**	**$ -**

	September 30, 2016 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	$ 222,670	$ -	$ -
Bond restricted funds	268,908	-	-
Grantor Trust investments	14,391	-	-
Derivative assets	511	-	-
Total financial assets measured at fair value	$ 506,480	$ -	$ -
Financial Liabilities:			
Derivative liabilities	$ -	$ 960	$ -

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 $446.9 and $281.9 million at September 30, 2017 and September 30, 2016, respectively. Included in bond restricted funds at September 30, 2017 and September 30, 2016 are approximately $9.6 and $12.4 million, respectively, of proceeds from CWA's First Lien Wastewater Revenue Bonds, Series 2016C, and $149.0 million 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 September 30, 2017 and September 30, 2016. Gross deposits to the bond restricted fund investments during 2017 and 2016 were $229.5 million and $235.2 million, respectively.

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

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

Management has estimated the fair value of the outstanding debt securities based on the coupons of the outstanding bonds and the current market yields. These are Level 2 fair value measurements. Management established the corresponding price to the call date as well as the price to maturity. The fair value was determined based on the lower of these two prices. Using this method, the estimated fair value of the debt is $3.6 billion at September 30, 2017 and 2016, versus carrying value of $3.5 billion and $3.4 billion at September 30, 2017 and September 30, 2016, respectively. In the case of Resources debt, the carrying value approximates fair value.

K. Asset Impairment

Long-lived assets and certain amortizing intangible assets held and used by Citizens and CWA are reviewed for impairment using undiscounted cash flows, whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Investments in unconsolidated affiliates are reviewed for impairment whenever events or circumstances indicate that a loss in the value of the investment may have occurred which is other than temporary. Evidence of a loss in value might include, but is not limited to, the absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. No asset impairments were recorded for 2017 and 2016.

L. Intangible Assets

Intangible assets at September 30, 2017 and September 30, 2016 consist of $65.3 million and $69.0 million, respectively, of Thermal customer contracts. The customer contracts intangible assets are finite lived and amortized on a straight-line basis over their expected useful lives which range from 20 to 30 years. Gross carrying values of intangible customer contracts were $104.5 million as of September 30, 2017 and 2016, respectively. Accumulated amortization for all intangible customer contracts was $39.2 million and $35.5 million at September 30, 2017 and 2016, respectively. Amortization expense of such assets was $3.7 million in each of the years ended September 30, 2017 and 2016. Estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows (in thousands):

2018	$	3,703
2019		3,703
2020		3,703
2021		3,703
2022		3,703

M. Software Developed for Internal Use

Internal and external costs incurred during the preliminary project stage associated with the development of internal use software are expensed as incurred. External direct costs of materials and services, internal direct payroll and payroll-related costs, and interest costs for the use of funds incurred during the application development stage associated with developing or obtaining internal use software are capitalized. Capitalized software costs were $5.4 million and $6.6 million in 2017 and 2016, respectively. Internal and external training and maintenance costs incurred during the post-implementation stage associated with the development of internal use software are expensed as incurred.

N. Comprehensive Income (Loss)

Comprehensive income (loss) is primarily a measure of all changes in equity of an enterprise which result from the transactions or other economic events during the period. This information is reported in the Combined Statements of Comprehensive Income. Citizens' components of accumulated other comprehensive income (loss) (AOCI) include the impact of pension and other post-employment benefits and mark to market valuation adjustments for available for sale investments. Citizens records its portion of ProLiance's and Heartland's other comprehensive income as increases or decreases to the investment account with a corresponding adjustment to other comprehensive income. In addition, certain investments are classified as available-for-sale securities, with corresponding unrealized gains and losses deferred and recognized in accumulated other comprehensive income.

The following table presents changes in accumulated other comprehensive income (loss) by component for the twelve months ended September 30, 2017 (in thousands):

	Pension Plan	Other Postemployment Benefits	Other	Total
Accumulated other comprehensive (loss) income at September 30, 2015	(138,507)	(13,346)	179	(151,674)
Other comprehensive loss before reclassifications	(33,551)	(4,471)	(321)	(38,343)
Amounts reclassified from accumulated other comprehensive income (loss)	8,852	102	-	8,954
Net current-period other comprehensive loss	(24,699)	(4,369)	(321)	(29,389)
Accumulated other comprehensive loss at September 30, 2016	$ (163,206)	$ (17,715)	$ (142)	$ (181,063)
Other comprehensive income before reclassifications	39,536	11,573	363	51,472
Amounts reclassified from accumulated other comprehensive income	10,805	321	-	11,126
Net current-period other comprehensive income	50,341	11,894	363	62,598
Accumulated other comprehensive (loss) income at September 30, 2017	$ (112,865)	$ (5,821)	$ 221	$ (118,465)

O. Advances and Contributions in Aid of Construction (CIAC)

The Company may receive advances and contributions from customers, home builders, and real estate developers to fund construction necessary to extend service to new areas. Water, Wastewater, and Resources advances for construction are refundable for up to ten years as new customers begin to receive service or other contractual obligations are fulfilled. Advances not refunded within 10 years are transferred to CIAC. The balances of advances for construction are reported in the Statement of Financial Position in Other long-term liabilities, and at September 30, 2017 for Water, Wastewater, and Resources are $14.0 million, $1.7 million, and $6.0 million, respectively, versus the values at September 30, 2016 for Water, Wastewater, and Resources of $13.4 million, $0.8 million, and $4.8 million, respectively.

Contributions in aid of construction are permanent collections of plant assets or cash for a particular construction project. The IURC requires the water and wastewater utilities of Citizens and Resources to record CIAC as a deferred credit. Utility plant funded by contributions is depreciated and contribution balances are amortized as a reduction to depreciation expense. The values of CIAC, net of amortization, recorded at September 30, 2017 for Water, Wastewater, and Resources are $86.2 million, $65.9 million, and $51.7 million, respectively, versus the values at September 30, 2016 for Water, Wastewater, and Resources of $79.1 million, $57.6 million, and $44.7 million, respectively.

P. Environmental Remediation and Related Contingencies

For operating facilities, accruals for environmental commitments and contingencies are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on current law and existing technologies. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

Q. New Accounting Guidance

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, 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. The amendments in this update defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017. The standard permits the use of either a retrospective or cumulative effect transition method. The Company has not yet selected a transition method and is in the process of assessing the impact of adoption of the standard on its combined financial statements. Based on its initial evaluation of ASU 2014-09, the Company currently does not expect ASU 2014-09 to have a material impact on its combined financial statements in the periods after adoption. The Company will complete its assessment of the expected impact of adoption, including selecting a transition method for adoption, in 2018, and continue to evaluate ASU 2014-09 through the date of adoption. The Company plans to adopt ASU 2014-09 effective October 1, 2018.

In February 2016, the FASB issued ASU 2016-02, 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 so that users can understand more about the nature of an entity's leasing activities. 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 Accounting Standards Update 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, and for the interim periods within those annual reporting periods. 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.

R. Recently Adopted Accounting Guidance

In April 2015, the FASB issued ASU 2015-03, which contains guidance on accounting for debt issuance costs and changes the presentation of debt issuance costs in financial statements. This ASU requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. Citizens adopted ASU 2015-03 in the first quarter of fiscal 2017, on a retrospective basis, and accordingly, debt issuance costs of $16.5 million as of September 30, 2016, were reclassified from "Bond issuance cost, net" to "Long-term debt (excluding current maturities)".

In July 2015, the FASB issued ASU 2015-11, containing guidance with the objective of simplifying the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Citizens adopted ASU 2015-11 in the first quarter of fiscal 2017. Adoption of these changes did not have a material impact to the Company's combined financial statements.

3. INVESTMENT IN UNCONSOLIDATED AFFILIATES

Unconsolidated affiliates include ProLiance, a jointly-owned affiliate of Resources (39%) and Vectren Energy Marketing & Services, Inc., (61%); and Heartland Gas Pipeline, LLC, an affiliation of equal ownership between Resources and ProLiance. A Condensed Statement of Operations of unconsolidated affiliates is presented below for the twelve months ended September 30, 2017 and 2016. A Condensed Statement of Financial Position for unconsolidated affiliates at September 30, 2017 and September 30, 2016 follows (in thousands).

	Twelve Months Ended September 30,	
Condensed Statements of Operations:	**2017**	2016
Revenues	**$ 3,024**	$ 4,008
Operating income	**1,346**	1,453
Net income from continuing operations	**1,052**	465
Discontinued operations	**3**	10
Net income	**$ 1,055**	$ 475

Condensed Statements of Financial Position:	**At September 30, 2017**	At September 30, 2016
Current assets	**$ 7,716**	$ 7,725
Non-current assets	**61,730**	61,349
Total assets	**69,446**	69,074
Current liabilities	**948**	976
Non-current liabilities	**18,826**	19,481
Equity	**49,672**	48,617
Total capitalization and liabilities	**$ 69,446**	$ 69,074

ProLiance is accounted for under the equity method**.** ProLiance's assets include investments in physical storage, pipeline assets, and a non-controlling interest in LA Storage, LLC (LA Storage), a development project in Louisiana for a salt-cavern natural gas storage facility. Certain of the remaining assets of ProLiance are owned through its investment in Heartland. Heartland, a joint venture between Resources and ProLiance, owns and operates an intrastate natural gas pipeline regulated by the IURC. Operating services for Heartland are provided by Citizens. Citizens received storage rental fees from Heartland of $0.6 million in each of the twelve months ended September 30, 2017 and 2016, respectively. Heartland is accounted for under the equity method.

Impairment Analysis - Investment in ProLiance and Note Receivable

Resources' investment in ProLiance is reviewed for other than temporary impairment using accounting guidance for equity method investments, which requires use of discounted cash flows. Measurement of an impairment loss is based on the discounted value cash flows related to these specific assets or asset group.

As part of the sale of certain assets of ProLiance in 2013, Resources provided a loan to ProLiance of $6.5 million. The loan is interest bearing and matures on June 24, 2018. In September 2017, Citizens Resources agreed to extend the maturity date of the loan to June 24, 2023. The loan is secured by the remaining assets of ProLiance, which has been making interest payments on the note since inception. Interest income received through September 30, 2017 and September 30, 2016, was $0.2 million and $0.2 million respectively.

No additional impairments or adjustments to existing allowances were recorded in 2017 or 2016.

Divestiture of RPS

On May 16, 2016, Resources and IPALCO Enterprises, Inc. sold their interest in RPS to an unaffiliated third party for approximately $0.2 million in cash. As a condition of the sale, Citizens has committed to using the bill remittance services provided by RPS for a period of three years. Citizens realized a net loss on sale of the RPS investment which was insignificant to the Combined Statements of Operations for the twelve months ended September 30, 2016.

The activity for fiscal years 2017 and 2016 for the investment in affiliates is as follows (in thousands):

	ProLiance	Heartland	RPS	Total
Investment in affiliates as of September 30, 2015	$ 7,587	$ 7,866	$ 82	$ 15,535
Fiscal year 2016 activity	(322)	704	(82)	300
Investment in affiliates as of September 30, 2016	7,265	8,570	-	15,835
Fiscal year 2017 activity	(140)	707	-	567
Investment in affiliates as of September 30, 2017	$ 7,125	$ 9,277	$ -	$ 16,402

4. LONG-TERM DEBT

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

(In Thousands)

	September 30, 2017			September 30, 2016		
	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 2017 to 2018	**$ -**	**$ 11,065**	**$ (200)**	$ 11,065	$ 10,690	$ (683)
Gas Utility Distribution System Series 2008B, 2nd Lien Revenue Refunding Bonds, 5.25%, due 2025 to 2027	**-**	**-**	**-**	55,855	-	(129)
Gas Utility Distribution System Series 2008C, 2nd Lien Revenue Refunding Bonds, 5.00% to 5.25%, due 2017 to 2021	**42,035**	**3,330**	**1,063**	45,365	3,175	1,478
Gas Utility Distribution System Series 2009A, 2nd Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2017 to 2018	**-**	**11,665**	**74**	11,665	205	181

	September 30, 2017			September 30, 2016		
	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 2010A, 2nd Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2024	**59,975**	**-**	**1,590**	59,975	-	1,819
Gas Utility Distribution System Series 2013A, 2nd Lien Revenue Refunding Bonds, 4.125% to 5.250%, due 2027 to 2030	**54,465**	**-**	**1,320**	54,465	-	1,401
Gas Utility Distribution System Series 2017A, 2nd Lien Revenue Refunding Bonds 5.00%, due 2025 to 2027	**49,825**	**-**	**8,800**	-	-	-
Subtotal Gas Long-Term Debt	**206,300**	**26,060**	**12,647**	238,390	14,070	4,067
Thermal						
Thermal Energy System Series 2008, First Lien Revenue Refunding Bonds, 5.00%, due 2021 to 2025	**-**	**-**	**-**	50,070	-	(742)
Thermal Energy System Series 2010A, First Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2017 to 2029	**1,530**	**470**	**10**	8,130	455	4
Thermal Energy System Series 2010B, First Lien Revenue Refunding Bonds, 5.00%, due 2017 to 2021	**30,650**	**7,615**	**1,475**	38,265	7,250	2,225
Thermal Energy System Series 2013A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2017 to 2033	**7,405**	**320**	**70**	7,725	310	76
Thermal Energy System Series 2014A, First Lien Revenue Refunding Bonds, 2.00% to 5.00%, due 2017 to 2034	**32,050**	**1,205**	**3,042**	33,255	1,170	3,304
Thermal Energy System Series 2016A, First Lien Revenue Refunding Bonds, 5.00%, due 2021 to 2029	**50,410**	**-**	**8,717**	-	-	-
Subtotal Thermal Long-Term Debt	**122,045**	**9,610**	**13,314**	137,445	9,185	4,867
Water						
Water Utility Series 2011B (ILPIBB 2005F)*, First Lien Net Revenue Bonds, 4.125% to 5.00%, due 2018 to 2029	**-**	**-**	**-**	54,285	-	(54)

(In Thousands)

	September 30, 2017			September 30, 2016		
	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 2011C (ILPIBB 2006A)*, First Lien Net Revenue Bonds, 5.50%, due 2018 to 2022	**44,555**	**10,055**	**(52)**	60,460	6,515	(67)
Water Utility Series 2011D (ILPIBB 2007D)*, First Lien Net Revenue Bonds, 5.25%, due 2022 to 2025	**70,410**	**-**	**(66)**	70,410	-	(71)
Water Utility Series 2011E (ILPIBB 2007L)*, First Lien Net Revenue Bonds, 4.625% to 5.25%,due 2018 to 2038	**-**	**-**	**-**	89,065	-	(88)
Water Utility Series 2011F (ILPIBB 2009A)*, First Lien Net Revenue Bonds, 4.00% to 5.75%, due 2018 to 2038	**415,545**	**5,615**	**(397)**	520,855	6,005	(528)
Water Utility Series 2011G (ILPIBB 2011E)*, First Lien Net Revenue Bonds, 3.25% to 5.125%, due 2017 to 2041	**51,520**	**1,225**	**(50)**	52,745	1,170	(54)
Water Utility Series 2014A, First Lien Net Revenue Bonds, 3.00% to 5.00%, due 2017 to 2044	**25,740**	**490**	**1,535**	26,230	475	1,578
Water Utility Series 2014B, 2nd Lien Revenue Refunding Bonds, 2.95%, due 2022	**43,595**		**(209)**	43,595	-	(252)
Water Utility Series 2016A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2017 to 2046	**67,925**	**1,090**	**12,764**	69,015	-	13,263
Water Utility Series 2016B, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2018 to 2038	**219,895**	**-**	**36,769**	-	-	-
Subtotal Water Long-Term Debt	**939,185**	**18,475**	**50,294**	986,660	14,165	13,727
Wastewater						
CWA Wastewater Utility Series 2011A, First Lien Revenue Bonds, 2.50% to 5.25%, due 2017 to 2041	**614,370**	**12,965**	**28,589**	627,335	12,650	29,903
CWA Wastewater Utility Series 2011B, Second Lien Revenue Bonds, 5.00% to 5.25%, due 2017 to 2041	**248,520**	**5,235**	**4,461**	253,755	4,985	4,712

(In Thousands)

	September 30, 2017			September 30, 2016		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
CWA Wastewater Utility Series 2012A, First Lien Revenue Bonds, 2.75% to 5.00%, due 2017 to 2042	**178,345**	**3,650**	**15,514**	181,995	3,510	16,476
CWA Wastewater Utility Series 2014A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2017 to 2044	**225,595**	**3,935**	**19,835**	229,530	3,785	20,806
CWA Wastewater Utility Series 2015A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2017 to 2045	**153,740**	**2,555**	**21,724**	156,295	2,480	22,694
CWA Wastewater Utility Series 2016A, First Lien Revenue Bonds 2.00% to 5.00%,due 2017 to 2046	**190,320**	**2,950**	**38,224**	193,270	-	39,657
CWA Wastewater Utility Series 2016B, 2nd Lien Revenue Refunding Bonds, 3.00% to 5.00%,due 2017 to 2046	**42,755**	**790**	**2,429**	43,545	-	2,483
CWA Wastewater Series 2016C, First Lien Revenue Bonds (SRF), 2.00%, due 2017 to 2036	**11,575**	**530**	**(94)**	12,105	395	(31)
CWA Wastewater Series 2017A, First Lien Revenue Bonds (SRF), 3.53%, due 2018 to 2047	**160,182**	**3,344**	**(157)**	-	-	-
Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds, see table below	**-**	**7,483**	**-**	7,483	7,121	-
Subtotal Wastewater Long-Term Debt	**1,825,402**	**43,437**	**130,525**	1,705,313	34,926	136,700
<u>Resources</u>						
Citizens Westfield Utilities Series 2014A, Revenue Bonds, 74% of 3-month LIBOR +2.20% with a swap to effectively fix 80% of bonds at 3.56% (see note 10), due 2017 to 2019	**60,454**	**2,303**	**(430)**	62,757	2,303	(722)
Citizens Westfield Water Series 2014A, Revenue Bonds, 74% of 1-month LIBOR + 1.60% with a swap to effectively fix the rate at 2.89% (see note 10), due 2019	**8,365**	**-**	**(52)**	8,365	-	(87)

	(In Thousands)					
	September 30, 2017			September 30, 2016		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Citizens Westfield Wastewater Series 2014A, Revenue Bonds, 74% of 1-month LIBOR + 1.60% with a swap to effectively fix the rate at 2.89% (see note 10), due 2019	**15,270**	**-**	**(95)**	15,270	-	(160)
LNG Indy Loan Variable rate based on funded debt to EBITDA ratio; due 2020	**-**	**-**	**-**	8,600	3,000	-
Subtotal Resources Long-Term Debt	**84,089**	**2,303**	**(577)**	94,992	5,303	(969)
Total Long-Term Debt	**$3,177,022**	**$ 99,885**	**$ 206,202**	$ 3,162,800	$ 77,649	$ 158,392

* Indianapolis Local Public Improvement Bond Bank (ILPIBB)

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

2018	$ 99,885
2019	165,479
2020	91,171
2021	98,170
2022	103,008
Thereafter	2,719,194
Total principal maturities	$ 3,276,907

Fiscal Year 2017 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 12A).

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 principal amounts outstanding at September 30, 2017 and September 30, 2016 are as follows (in thousands):

	September 30 2017	September 30, 2016
Wastewater General Obligation Bonds Series 2007 C, 5.00%, due 2018	**$ 6,285**	$ 12,270
Wastewater General Obligation Bonds Series 2013A, 5.25%, due 2018	**1,198**	2,334
Total Wastewater General Obligation Bond Debt	**$ 7,483**	$ 14,604

All outstanding indebtedness for LNG Indy was repaid upon sale of the subsidiary. See Note 13 for additional information regarding the sale.

Rate Covenants

Citizens and CWA are obligated to satisfy certain covenants, including meeting certain minimum debt service coverage requirements for each bond issue, which are generally calculated as earnings before interest, taxes, depreciation, and amortization, including certain adjustments, divided by the relevant debt service.

In addition, Citizens and CWA have covenants specifying in the event that debt service covenants cannot be met, Citizens and CWA shall take any appropriate action under the law and within its power, to generate income and revenues of the GUS, GUDS, Water System, Wastewater System and Thermal Energy System, respectively, in the amounts required to satisfy the covenants for subsequent fiscal years. These actions include, but are not limited to, the filing of a proceeding seeking additional revenues or other relief before the IURC.

Citizens' and CWA's rate covenant debt service coverage ratios, as defined by each indenture, are summarized as follows for 2017:

	Coverage Requirement	2017 Actual
GUS Revenue Refunding Bonds Series 1986B	1.4	6.38
GUDS Revenue Refunding Bonds Series 2008C, Series 2009A, Series 2010A, Series 2013A, and Series 2017A Second Lien Multi-Mode Revenue and Revenue Refunding Bonds	1.0	1.96
Thermal Energy System Revenue Bonds Series 2010A and 2010 B, Series 2013A, Series 2014A, and Series 2016A	1.0	1.57
Water Utility Net Revenue Bonds Series 2011C, Series 2011F, 2011G, Series 2014A, Series 2016A, and 2016B	1.2	2.00
Water Utility Net Revenue Second Lien Bonds Series 2014B	1.1	1.97
CWA Wastewater Utility Revenue Bonds Series 2011A, Series 2012A, Series 2014A, Series 2015A, Series 2016A, 2016C, and 2017A	1.2	2.00
CWA Wastewater Utility Revenue Second Lien Bonds Series 2011B and 2016B	1.1	1.65

As of September 30, 2017, the Water System maintains $6.9 million in the Rate Stabilization Fund, which is recorded as cash and cash equivalents on the Combined Statement of Financial Position. For purposes of satisfying its rate covenant, per the Water System indenture, Citizens may transfer funds from the Rate Stabilization Fund to revenues in any fiscal year, so long as the funds were not transferred to the Rate Stabilization Fund during such fiscal year. These funds were transferred to the Rate Stabilization Fund in fiscal 2012 and continue to be available to support net revenues of the Water System in future years.

5. SHORT-TERM AND OTHER BORROWINGS

Gas

Gas had $50.0 million in commercial paper outstanding at September 30, 2017 and September 30, 2016. The commercial paper has a maximum maturity of 270 days. It last remarketed in December 2017 and will remarket again in March 2018. Commercial paper is backed by a three year letter of credit issued by J.P. Morgan Chase which matures on July 16, 2018. 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 10, 2018 with an interest rate of LIBOR plus 1.25 percent. At September 30, 2017 and 2016, 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 September 30, 2017 and 2016, 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 September 30, 2017 and September 30, 2016, $0.0 million and $3.1 million, respectively, were outstanding on the line.

In April 2017, Citizens amended the $30.0 million working capital line of credit with BMO Harris Bank NA to mature in April 2018; it has an interest rate of LIBOR plus 0.92 percent. There were no draws on the facility during 2017 or 2016.

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 72 percent of LIBOR plus 0.84 percent and a commitment fee of 0.22 percent. At September 30, 2017 and September 30, 2016, $0.0 million and $80.0 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. The LNG Indy line of credit was repaid and subsequently closed upon divestiture of the LNG Indy subsidiary (see Note 13).

Entity	Credit Capacity	Maturity Date	Interest Rate	Commitment Fee	Amount Outstanding at (in millions) September 30, 2017	September 30, 2016
Westfield Gas	$4.0 million	March 29, 2018	LIBOR + 2.15%	0.150%	$ 1.2	$ -
Westfield Water	$10.3 million	March 21, 2019	LIBOR + 2.40%	0.175%	3.5	1.0
Westfield Wastewater	$11.0 million	March 21, 2019	LIBOR + 2.40%	0.175%	3.0	3.0
LNG Indy	$3.0 million	Canceled December 28, 2016	LIBOR + 1.50%	0.000%	-	1.0

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

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as shown in the accompanying Combined Statements of Financial Position are comprised of the following components at September 30 (in thousands):

	2017	2016
Accounts payable	**$ 112,587**	$ 81,000
Accrued interest	**65,325**	57,521
Customer credit balances	**17,903**	19,911
Salaries and employee benefits	**18,305**	14,628
Post-employment benefits	**5,121**	4,809
Other	**1,231**	99
Total accounts payable and accrued expenses	**$ 220,472**	$ 177,968

7. RETIREMENT PLANS

Citizens has a non-contributory defined benefit pension plan covering substantially all full-time employees. The policy of Citizens is to fund amounts necessary to maintain the plan on an actuarially sound basis. Contributions are intended to provide not only benefits attributed to service-to-date but also for benefits expected to be earned in the future. Citizens also has a defined-benefit pension plan for certain Water bargaining employees. Citizens elected to freeze the plan as of September 30, 2011, and the participants are no longer accruing benefits.

In addition to providing defined benefit pension plan benefits, Citizens offers other retirement benefits to eligible employees including a pension restoration plan, a supplemental benefits plan, thrift savings plans and post-retirement health care and life insurance benefits. The pension restoration plan provides retirement benefits for employees whose retirement benefit exceeds the maximum allowable benefit under the Internal Revenue Code for qualified pension plans and thrift plans. The supplemental benefit plan covers certain former employees of Indianapolis Water Company.

The thrift savings plans are defined contribution plans covering most employees. Citizens matches a portion of the contributions made by the employees to the savings plans. The cost to Citizens for its matching portion was $2.3 million and $1.9 million for the years ended September 30, 2017 and 2016, respectively. Citizens provides post-employment health and dental benefits to eligible retirees, which includes payment of up to 80 percent of single and dependent coverage premiums until age 65. Certain active non-bargaining employees, previously on the legacy Water post-employment health plan, will receive benefits for life upon retirement. The percentage of premiums paid by Citizens is dependent upon the age and years of service at the date the employee retires. The post-employment benefit plans are unfunded. Citizens accrues the expected cost of post-employment health benefits during the years in which employees render service.

Citizens also assumed responsibility for benefits of the legacy Water plan with respect to employees that were retired (as well as eligible dependents) as of the date of acquisition of the water utility. These benefits continue for the life of the participants. A restricted funds trust (Grantor Trust) had been established by previous owners of the Water operations to fund retiree medical benefit obligations of the legacy Water plan. Contributions to the trust had been made periodically by the previous owners. Citizens acquired the Grantor Trust as part of the acquisition and continues to make contributions to the trust from operating revenues of the Water System as authorized by the IURC. Benefits are paid from the Grantor Trust. Assets of the Grantor Trust are recorded as Other Investments on the Company's balance sheet. Fair value of the Grantor Trust assets at September 30, 2017 is $15.0 million.

The following table sets forth the funded status of the defined benefit pension and other post-retirement benefit plans as of the measurement date, reconciled with the amount reported in Citizens' and CWA's Combined Statements of Financial Position at September 30, 2017 and 2016 (in thousands):

	Defined Benefit Plan		Other Benefits	
	2017	2016	**2017**	2016
Projected Benefit Obligation (PBO)	**$ 408,714**	$ 426,330	**$ 89,546**	$ 100,052
Plan assets at fair value	**315,091**	280,393	**-**	-
Funded status	**$ (93,623)**	$ (145,937)	**$ (89,546)**	$ (100,052)
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Current liability	**$ -**	$ -	**$ (5,494)**	$ (5,391)
Non-current liability	**(93,623)**	(145,937)	**(84,052)**	(94,661)
Net amounts recognized	**$ (93,623)**	$ (145,937)	**$ (89,546)**	$ (100,052)
*Amounts in Accumulated Other Comprehensive Income (AOCI), not in costs: **				
Unrecognized prior service cost	**$ 949**	$ 1,102	**$ (20,406)**	$ (7,108)
Unrecognized actuarial loss	**111,923**	162,104	**26,220**	24,823
Total amounts in AOCI	**$ 112,872**	$ 163,206	**$ 5,814**	$ 17,715
Accumulated Benefit Obligation (ABO)	**$ 369,109**	$ 381,743		

* The amounts expected to be recognized in 2018 out of AOCI are $6.5 million for the defined benefit pension plan and $0.8 million for the other benefits.

In accordance with the Mortality Improvement Scale RP-2014 using MP-2016, Citizens applied the new mortality assumptions which were used in the determination of the projected benefit obligation as of September 30, 2017. The net periodic benefit cost for these plans included the following components (in thousands):

	Defined Benefit Plan		Other Benefits	
	2017	2016	**2017**	2016
Service cost-benefits attributed to service during the period	**$ 13,088**	$ 11,116	**$ 3,904**	$ 4,635
Interest cost	**11,658**	15,156	**2,424**	3,541
Actual (gain) loss on assets	**(29,861)**	(18,536)	**-**	-
Amortization of prior service cost	**154**	261	**(873)**	(871)
Amortization of loss	**10,651**	8,603	**1,201**	972
Deferred actuarial gain (loss)	**12,679**	2,473	**-**	-
Net periodic benefit cost	**$ 18,369**	$ 19,073	**$ 6,656**	$ 8,277

Assumptions used to determine benefit obligations at September 30 were as follows:

	Citizens Defined Benefit Pension		Water Defined Benefit Pension		Citizens Other Benefits	
	2017	2016	**2017**	2016	**2017**	2016
Average discount rate	**3.68%**	3.39%	**3.19%**	2.78%	**3.50%**	3.12%
Rate of increase in future compensation levels	**3.50%**	3.50%	**-**	-	**-**	-

Assumptions used to determine net periodic benefit cost at September 30 were as follows:

	Citizens Defined Benefit Pension		Water Defined Benefit Pension		Citizens Other Benefits	
	2017	2016	**2017**	2016	**2017**	2016
Average discount rate	**3.39%**	4.14%	**2.78%**	3.51%	**3.12%**	3.92%
Rate of increase in future compensation levels	**3.50%**	3.50%	**-**	-	**-**	-
Expected long-term rate of return on assets	**6.10%**	6.24%	**6.10%**	6.24%	**-**	-

Assumed health care cost trend rates at September 30 were as follows:

	Citizens Other Benefits	
	2017	2016
Health care cost trend rate assumed for next year	**8.00%**	8.00%
Rate to which the cost trend rate is assumed to decline	**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate	**2023**	2022

To calculate the expected long-term rate of return on assets, Citizens used the plan assets fair market value and an expected long-term rate of return, based on a targeted 60 percent equity and 40 percent debt allocation for the plan.

Assets of the defined benefit pension plan consist principally of investments in long-term and intermediate-term fixed income securities and common stocks. The measurement date of September 30 was used to determine the pension cost for the years 2017 and 2016.

The following table presents the pension assets measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2017 and 2016 (in thousands):

	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)
Pension Assets:			
Cash equivalents	**$ 9,148**	**$ -**	**$ -**
Equities	**194,651**	**-**	**-**
Fixed income	**111,290**	**-**	**-**
Total pension assets measured at fair value	**$ 315,089**	**$ -**	**$ -**

	2016 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)
Pension Assets:			
Cash equivalents	$ 7,249	$ -	$ -
Equities	167,082	-	-
Fixed income	106,062	-	-
Total pension assets measured at fair value	$ 280,393	$ -	$ -

See Note 2J for additional guidance on fair value measurement.

Citizens' pension plan weighted-average asset allocation as of September 30, 2017 and 2016, by asset category is as follows:

	2017	2016
Equity securities	**62%**	59%
Debt securities	**35%**	38%
Cash and cash equivalents	**3%**	3%
	100%	100%

The primary investment objective of the retirement funds is to earn a reasonable rate of return over a market cycle within a prudent level of risk. These investment objectives are long-term in nature.

Employer contribution, participant contributions and benefits paid during the year (in thousands):

	Defined Benefit Plan		Other Benefits	
	2017	2016	**2017**	2016
Employer contributions (net of participant contributions)	**$ 20,347**	$ 18,966	**$ 5,261**	$ 5,281
Benefits paid	**16,113**	14,944	**5,261**	5,281

Citizens expects to contribute, at a minimum, $19.2 million to the pension plans for 2018. The following retirement benefit payments, which reflect future service, as appropriate, are expected to be paid (in thousands):

	Defined Benefit Plan	Other Benefits
2018	$ 17,859	$ 5,494
2019	18,135	5,436
2020	18,415	5,439
2021	19,357	5,528
2022	20,060	5,822
Years 2023 - 2027	112,085	28,249

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage increase in assumed health care cost trend rates would have the following effects (in thousands):

	2017	2016
Effect on total of service and interest cost	**$ 762**	$ 928
Effect on post-employment benefit obligation	**7,406**	8,955

8. 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 $16.4 million and $15.8 million at September 30, 2017 and September 30, 2016, respectively, including ProLiance and Heartland. 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. Lastly, Resources provides stormwater management services to the City of Indianapolis through Citizens Energy Management Company, LLC.

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 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 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 information as of and for the years ended September 30, 2017 and 2016 are summarized as follows:

Segment Footnote - 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 - Combined Statement of Financial Position
Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
At September 30, 2016

	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Other	Elimin-ations	Total
Assets									
Property, plant, and equipment	$307,839	$ 73,557	$ 64,410	$1,071,101	$1,625,112	$ 197,516	$ 23,678	$ -	**$3,363,213**
Intangibles	-	18,137	50,867	-	-	-	-	-	**69,004**
Investments	18,503	11,698	5,467	95,835	179,570	19,711	517	-	**331,301**
Cash and cash equivalents	90,056	11,857	34,648	22,407	247,062	9,885	20,327	-	**436,242**
Other current assets	61,452	11,597	8,549	37,604	45,845	10,030	(18,925)	-	**156,152**
Deferred charges and other non-current assets	9,395	949	53	6,073	4,675	1,263	2,758	-	**25,166**
Total assets	$487,245	$127,795	$163,994	$1,233,020	$2,102,264	$ 238,405	$ 28,355	$ -	**$4,381,078**
Capitalization and Liabilities									
Retained earnings and AOCI	$ 58,720	$ 8,749	$100,081	$ 17,030	$ (25,809)	$ 67,196	$(169,001)	$ -	**$ 56,966**
Long-term debt	242,457	91,396	50,916	1,000,387	1,842,013	94,023	-	-	**3,321,192**
Retirement benefit and Other long-term liabilities	61,193	10,205	3,585	152,368	59,973	57,216	183,778	-	**528,318**
Current mat. of long-term debt	14,070	5,082	4,103	14,165	34,926	5,303	-	-	**77,649**
Short-term borrowings	50,000	-	-	3,100	80,000	5,000	-	-	**138,100**
Current liabilities	60,805	12,363	5,309	45,970	111,161	9,667	13,578	-	**258,853**
Total capitalization and liabilities	$487,245	$127,795	$163,994	$1,233,020	$2,102,264	$ 238,405	$ 28,355	$ -	**$4,381,078**

Segment Footnote - Combined Statement of Operations

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
For the Twelve Months Ended September 30, 2017

	Gas	Steam	Chilled Water	Water	Waste-water	Resources	Other	Elimin-ations	Total
Operating revenues									
Customer revenues	$233,100	$64,892	$36,631	$202,526	$263,151	$ 36,126	$ -	$ -	**$ 836,426**
Intercompany revenues	1,299	3,583	-	808	533	6,903	-	(13,126)	**-**
Gross operating revenues	234,399	68,475	36,631	203,334	263,684	43,029	-	(13,126)	**836,426**
Operating expenses:									
Cost of goods sold	92,283	36,275	12,422	-	-	9,027	-	(12,036)	**137,971**
Operations and maintenance	67,012	19,333	8,244	76,370	78,745	17,410	(339)	(1,067)	**265,708**
Depreciation and amortization	25,045	5,020	6,121	42,017	68,518	5,936	-	-	**152,657**
Loss (gain) on divestiture	14,196	-	-	-	-	(3,884)	-	-	**10,312**
Taxes	8,101	1,468	2,318	13,610	22,000	1,670	410	-	**49,577**
Total operating expenses	206,637	62,096	29,105	131,997	169,263	30,159	71	(13,103)	**616,225**
Operating income (loss)	27,762	6,379	7,526	71,337	94,421	12,870	(71)	(23)	**220,201**
Other income (expense), net:									
Interest income	85	48	21	1,886	492	282	83	(81)	**2,816**
Other	(323)	7	-	1,779	434	(94)	(2,002)	-	**(199)**
Total other income (expense), net	(238)	55	21	3,665	926	188	(1,919)	(81)	**2,617**
Income (loss) before equity in earnings of affiliates and interest charges	27,524	6,434	7,547	75,002	95,347	13,058	(1,990)	(104)	**222,818**
Equity in earnings of affiliates	-	-	-	-	-	481	-	-	**481**
Interest charges:									
Interest on long-term debt	12,169	4,144	2,375	49,731	85,068	2,175	81	(81)	**155,662**
Other interest, including net (premium) discount amortization	1,244	(630)	1,502	(1,402)	(26,288)	612	26	-	**(24,936)**
Total interest charges	13,413	3,514	3,877	48,329	58,780	2,787	107	(81)	**130,726**
Income (loss) from continuing operations	14,111	2,920	3,670	26,673	36,567	10,752	(2,097)	(23)	**92,573**
Loss from discontinued operations	-	-	-	-	-	-	(2,580)	23	**(2,557)**
Net income (loss)	$ 14,111	$ 2,920	$ 3,670	$ 26,673	$ 36,567	$ 10,752	$ (4,677)	$ -	**$ 90,016**

Segment Footnote - Combined Statement of Operations

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
For the Twelve Months Ended September 30, 2016

	Gas	Steam	Chilled Water	Water	Waste-water	Resources	Other	Elimin-ations	Total
Operating revenues									
Customer revenues	$218,556	$61,963	$37,519	$186,396	$220,389	$ 46,333	$ -	$ -	**$ 771,156**
Intercompany revenues	8,871	3,720	-	1,023	928	6,725	-	(21,267)	**-**
Gross operating revenues	227,427	65,683	37,519	187,419	221,317	53,058	-	(21,267)	**771,156**
Operating expenses:									
Cost of goods sold	88,175	34,193	11,749	-	-	16,392	-	(17,862)	**132,647**
Operations and maintenance	79,924	19,825	8,109	77,905	74,614	18,623	(277)	(3,373)	**275,350**
Depreciation and amortization	25,226	5,011	6,163	41,775	64,924	6,957	-	-	**150,056**
Taxes	8,592	1,629	2,470	13,745	18,949	2,385	370	-	**48,140**
Total operating expenses	201,917	60,658	28,491	133,425	158,487	44,357	93	(21,235)	**606,193**
Operating income (loss)	25,510	5,025	9,028	53,994	62,830	8,701	(93)	(32)	**164,963**
Other income (expense), net:									
Interest income	30	25	11	1,919	166	231	52	(51)	**2,383**
Other	(561)	-	-	130	641	(2,534)	(1,509)	-	**(3,833)**
Total other income (expense), net	(531)	25	11	2,049	807	(2,303)	(1,457)	(51)	**(1,450)**
Income (loss) before equity in earnings of affiliates and interest charges	24,979	5,050	9,039	56,043	63,637	6,398	(1,550)	(83)	**163,513**
Equity in earnings of affiliates	-	-	-	-	-	281	-	-	**281**
Interest charges:									
Interest on long-term debt	12,985	4,484	2,704	49,300	75,077	2,692	51	(51)	**147,242**
Other interest, including net (premium) discount amortization	1,496	(398)	(449)	142	(22,464)	477	18	-	**(21,178)**
Total interest charges	14,481	4,086	2,255	49,442	52,613	3,169	69	(51)	**126,064**
Income (loss) from continuing operations	10,498	964	6,784	6,601	11,024	3,510	(1,619)	(32)	**37,730**
Loss from discontinued operations	-	-	-	-	-	-	(3,605)	32	**(3,573)**
Net income (loss)	$ 10,498	$ 964	$ 6,784	$ 6,601	$ 11,024	$ 3,510	$ (5,224)	$ -	**$ 34,157**

Segment Footnote - Combined Statement of Cash Flows

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
For the Twelve Months Ended September 30, 2017

	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Other	Total
Net cash provided by (used in) operating activities	$ 17,248	$ 8,242	$ 12,553	$ 72,134	$ 109,178	$ 13,366	$ 11,078	**$ 243,799**
Investing Activities:								
Construction expenditures	(22,070)	(3,796)	(2,279)	(36,342)	(191,285)	(6,658)	(8,702)	**(271,132)**
Purchase of investment securities	(26,890)	(9,303)	(6,619)	(68,760)	(275,328)	-	-	**(386,900)**
Sale and maturity of investment securities	26,476	9,874	6,571	70,502	108,460	-	-	**221,883**
Divestiture proceeds, net of expenses	12,242	-	-	-	-	35,552	-	**47,794**
Other investing activities	13,894	-	-	12,410	(1)	(10,623)	(6,403)	**9,277**
Net cash provided by (used in) investing activities	3,652	(3,225)	(2,327)	(22,190)	(358,154)	18,271	(15,105)	**(379,078)**
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)**
Proceeds from issuance of long-term debt	-	-	-	-	163,527	-	-	**163,527**
Principal payments of long-term debt and bond refunding	(73,385)	(35,270)	(34,770)	(277,096)	(34,926)	(13,903)	-	**(469,350)**
Proceeds from bond refunding	59,441	30,025	30,531	259,672	-	-	-	**379,669**
Bond issuance costs	(379)	(180)	(188)	(983)	(414)	-	-	**(2,144)**
Contributions in aid of construction	-	-	-	2,354	7,990	(2,723)	-	**7,621**
Other financing activities	(254)	-	-	-	-	-	-	**(254)**
Net cash provided by (used in) financing activities	(14,577)	(5,425)	(4,427)	(19,153)	56,177	(13,926)	-	**(1,331)**
Net change in cash and cash equivalents	6,323	(408)	5,799	30,791	(192,799)	17,711	(4,027)	**(136,610)**
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	$ 96,379	$ 11,450	$ 40,448	$ 53,196	$ 54,263	$ 27,595	$ 16,301	**$ 299,632**

Segment Footnote - Combined Statement of Cash Flows

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
For the Twelve Months Ended September 30, 2016

	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Other	Total
Net cash provided by (used in) operating activities	$ 51,694	$ 2,238	$ 13,126	$ 43,122	$ 67,667	$ 15,202	$ 3,568	**$ 196,617**
Investing Activities:								
Construction expenditures	(23,645)	(3,401)	(2,924)	(27,722)	(207,884)	(11,560)	(6,745)	**(283,881)**
Purchase of investment securities	(26,411)	(9,590)	(6,816)	(78,496)	(118,135)	-	-	**(239,448)**
Sale and maturity of investment securities	26,643	9,152	6,710	73,502	103,146	-	-	**219,153**
Other investing activities	71	-	-	673	(1,442)	119	55	**(524)**
Net cash provided by (used in) investing activities	(23,342)	(3,839)	(3,030)	(32,043)	(224,315)	(11,441)	(6,690)	**(304,700)**
Financing Activities:								
Proceeds from bank line of credit	-	-	-	3,000	105,000	4,000	-	**112,000**
Repayment of bank line of credit	-	-	-	(63,900)	(25,000)	(1,000)	-	**(89,900)**
Proceeds from issuance of long-term debt	-	-	-	82,942	292,600	-	-	**375,542**
Principal payments of long-term debt and bond refunding	(13,500)	(4,572)	(3,908)	(24,260)	(76,847)	(5,703)	-	**(128,790)**
Bond issuance costs	-	-	-	(529)	(1,178)	-	-	**(1,707)**
Contributions in aid of construction	-	-	-	3,089	6,960	(4,810)	-	**5,239**
Other financing activities	(207)	-	-	-	-	-	-	**(207)**
Net cash provided by (used in) financing activities	**(13,707)**	**(4,572)**	**(3,908)**	**342**	**301,535**	**(7,513)**	**-**	**272,177**
Net change in cash and cash equivalents	14,645	(6,173)	6,188	11,421	144,887	(3,752)	(3,122)	**164,094**
Cash and cash equivalents at beginning of period	75,411	18,031	28,461	10,984	102,175	13,636	23,450	**272,148**
Cash and cash equivalents at end of period	$ 90,056	$ 11,858	$ 34,649	$ 22,405	$ 247,062	$ 9,884	$ 20,328	**$ 436,242**

Additional Thermal Financial Information

Additional Thermal financial information for the years ended September 30, 2017 and 2016 is summarized as follows (in thousands):

	2017	2016
Net Income	**$ 6,590**	$ 7,748
Total Liabilities	**195,008**	183,981
Equity	**95,353**	109,165
Interest Charges on Long-Term Debt	**6,519**	7,188
Cash Flow Information:		
Cash and Cash Equivalents, Beginning of Fiscal Year	**$ 46,505**	$ 46,492
Cash Provided by Operating Activities	**20,795**	15,363
Cash Used In Investing Activities	**(5,552)**	(6,870)
Cash Used in Financing Activities	**(9,850)**	(8,480)
Cash and Cash Equivalents, End of Fiscal Year	**$ 51,898**	$ 46,505

During 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. This amount is not reflected in the financial statements as of September 30, 2017. Payment was made in full on November 30, 2017.

9. 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 combined financial statements in accordance with FASB guidance related to asset retirement obligations (ASC 410-20) and exit or disposal cost obligations (ASC 420). Citizens enrolled this facility in the Indiana Department of Environmental Management Voluntary Remediation Program to address historical environmental impacts associated with these operations. Demolition costs concluded in 2017, and costs of remediation will continue for several years. As the full nature and extent of the environmental impacts can be difficult to determine with certainty, Citizens, in conjunction with internal and external environmental consultants, has estimated and accrued costs associated with environmental remediation of this site based on currently available information. Estimates of these costs are included in the combined financial statements as part of the asset retirement obligation. The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) at September 30, 2017 and September 30, 2016, are as follows (in thousands):

	September 30, 2017	September 30, 2016
Current assets	**$ 504**	$ 294
Deferred charges and other non-current assets	**-**	314
Total assets	**$ 504**	$ 608
Retained earnings and AOCI	**$ (97,535)**	$ (97,701)
Retirement benefit and other long-term liabilities	**71,635**	84,150
Intercompany liability	**23,151**	12,925
Current liabilities	**3,253**	1,234
Total capitalization and liabilities	**$ 504**	$ 608

For the fiscal years ended September 30, 2017 and 2016, Discontinued Operations operating expenses were $2.6 million and $3.6 million, respectively. Approximately $9.5 million of cash was advanced by Gas to Discontinued Operations during fiscal year 2017 to settle a portion of the liabilities enumerated in the table below. Additional cash funding from Gas to settle liabilities may be provided to Discontinued Operations in future years.

Activity for the twelve months ended September 30, 2017 and 2016 for the asset retirement obligation liability is as follows (in thousands):

Asset retirement obligation at September 30, 2015	$	80,869
Accretion expense		2,943
Demolition liabilities settled		(5,334)
Remediation liabilities settled		(3,040)
Asset retirement obligation at September 30, 2016	$	75,438
Accretion expense		2,897
Demolition liabilities settled		(4,139)
Remediation liabilities settled		(6,786)
Change in cash flows (September 2017)		(1,215)
Asset retirement obligation at September 30, 2017	$	66,195

10. DERIVATIVES AND HEDGING

Commodity Contracts

Citizens' Price Volatility Mitigation Policy sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. Citizens' objectives for using derivatives are to decrease the volatility associated with fluctuating natural gas prices. Citizens enters into natural gas options purchased and sold on the New York Mercantile Exchange. 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 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.

Interest Rate Swaps

Concurrent with the CWU revenue bonds issued in March 2014, CWU entered into a fixed rate pay interest rate swap agreement with PNC Bank, National Association as the counterparty through October 1, 2018. The notional value of the swap was $50.2 million and $52.0 million at September 30, 2017 and September 30, 2016, respectively, representing 80 percent of the bond issuance. Under the terms of the swap agreement, CWU pays a quarterly fixed rate of approximately 1.36 percent of the notional amount to the swap provider and receives a quarterly variable rate payment equal to 74 percent of the average three month LIBOR rate for each quarterly period. The variable rate received from the counterparty approximates the variable rate paid to the bondholders on the CWU bonds. The market value of the interest rate swap derivative for CWU was $0.1 million and $0.6 million at September 30, 2017 and September 30, 2016, respectively.

Concurrent with the Westfield Water and Westfield Wastewater revenue bonds issued in March 2014, the utilities entered into fixed rate pay interest rate swap agreements with PNC Bank, National Association as the counterparty through October 1, 2018. The notional values of the swaps were $8.4 million and $15.3 million, respectively, at September 30, 2017. Under the terms of the swap agreement Westfield Water and Westfield Wastewater pay a monthly fixed rate of approximately 1.29 percent of the notional amount to the swap provider and receive a monthly variable rate payment equal to 74 percent of the average one month LIBOR rate for each period. The variable rate received from the counterparty approximates the variable rate paid to the bondholders on the Westfield Water and Westfield Wastewater bonds. The market value of the interest rate swap derivatives for Westfield Water and Westfield Wastewater was $0.1 million and $0.3 million at September 30, 2017 and September 30, 2016, respectively.

The following tables present information about Citizens' derivative instruments and hedge activities. The first table provides a financial position overview of Citizens' Derivative Assets and Liabilities as of September 30, 2017 and September 30, 2016, while the latter table provides a breakdown of the related impact on the results of operations for the twelve months ended September 30, 2017 and 2016. Citizens recovers derivative costs related to commodity contracts through its regulatory mechanism for gas cost adjustments.

Fair Value of Derivative Instruments (in Thousands)

Derivative Instrument	Derivative Designation	Statement of Financial Position Location	September 30, 2017 Derivative Assets Fair Value	September 30, 2017 Derivative Liabilities Fair Value	September 30, 2016 Derivative Assets Fair Value	September 30, 2016 Derivative Liabilities Fair Value
Commodity contracts	Not accounted for as a hedge (1)(2)	Other Investments	**$203**	**$(-)**	$511	$(-)
Interest rate swaps	Not accounted for as a hedge (3)	Non-Current Liabilities	**$ -**	**$(162)**	$ -	$(960)

(1) Commodity contracts represent exchange-traded options. These contracts qualify for net presentation on the Combined Statements of Financial Position.
(2) The fair value shown for the commodity contracts is comprised of derivative volumes totaling 4.0 million and 6.8 million dekatherms at September 30, 2017 and September 30, 2016, respectively. These volumes are disclosed in absolute terms, not net.
(3) The fair value shown for the fixed rate interest swap agreements with the bank effective March 21, 2014 to fix the interest rate through October 1, 2018 is determined by using the contractual fixed rate less the LIBOR rate at the time of the interest payment times a multiplier of 0.74. The result is the settlement rate. The outstanding loan balance is multiplied by the settlement rate less a discount factor as provided by the bank.

Unrealized gains and losses and settled amounts related to commodity contracts are initially recognized on the Combined Statements of Financial Position as a deferred recoverable cost, a regulatory asset or liability, and ultimately recognized on the Combined Statements of Operations as Cost of Goods Sold when those costs are recovered through gas rate adjustments. The amount of realized loss included in recoverable gas costs was $0.2 million at September 30, 2017 and the realized gain included in recoverable gas costs was $0.1 million at September 30, 2016. The margin deficit was less than $0.1 million at September 30, 2017 and less than $0.1 million at September 30, 2016.

Derivative Impact on Statement of Operations (in Thousands)

Derivative Instrument	Derivative Designation	Statement of Operations Location	**September 30, 2017**	September 30, 2016
Commodity contracts	Not accounted for as a hedge	Gain (Loss) in Cost of Goods Sold	**$829**	$2,146
Interest rate swaps	Not accounted for as a hedge	Interest Expense	**$(349)**	$260

The derivative impact in cost of goods sold is recovered through regulatory gas rate adjustments in subsequent months, which is reflected in operating revenue. The impact of the commodity contracts on the statements of cash flows for the twelve months ended September 30, 2017 and 2016 was an increase of $0.1 million and an increase of $1.1 million, respectively. The impact of the interest rate swaps on the statements of cash flows was $0.4 million and $0.8 million for the twelve months ended September 30, 2017 and 2016, respectively.

11. RATE AND REGULATORY MATTERS

A. Regulatory Developments

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

In an order issued in April 2013, the IURC approved a continuation through calendar year 2015 of Gas' decoupling mechanism, which generally supported Gas's ability to recover its non-gas costs as authorized in its most recent general rate case order despite changes in customer usage. Under the April 2013 order, if Gas wished to extend the decoupling mechanism beyond December 30, 2015, it was required to file a base rate case by that date. On January 4, 2016, Citizens filed a notice with the IURC stating it did not intend to file a Gas base rate case on or before December 30, 2015, and would immediately begin winding down the decoupling mechanism and related energy efficiency programs. On July 31, 2017, Citizens filed its final reconciliation report regarding the winding down of the decoupling mechanism and related energy efficiency programs, indicating all items have been completely phased out.

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.

On April 22, 2016, Citizens filed a petition requesting approval to decrease its authorized revenue requirement to reflect in base rates certain operating cost savings achieved as a result of the conversion of coal-fueled boilers at the Perry K steam production plant to be fueled by natural gas and discontinue a previously approved tracking mechanism used to pass back such savings to customers. Citizens' petition also requested approval of a Normal Temperature Adjustment (NTA) for the steam utility's heat sensitive customers to mitigate the impacts of abnormal temperatures on the steam utility and its customers. On September 2, 2016, Citizens and the Office of Utility Consumer Counselor (OUCC) filed a settlement agreement with the IURC recommending approval of a decrease to annual operating revenues of $2.4 million or 3.1 percent. The settlement agreement also recommended approval of Citizens' proposed NTA; however, under the settlement agreement, the NTA would only be applicable to Citizens' smaller, General Steam Service customers. On November 22, 2016, the IURC approved the settlement agreement without any material modification. Revised rates and charges for steam utility service in compliance with the settlement agreement and order were placed in effect December 1, 2016.

The Citizens Thermal steam utility 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 rate schedule in the gas utility's tariff which allows such arrangements, subject to the approval of the IURC. On March 16, 2017, the gas utility filed a petition with the IURC requesting approval of the agreement. On May 31, 2017, the OUCC filed testimony stating the agreement is in the public interest and recommending its approval by the IURC. On August 23, 2017, the IURC issued an order denying the gas utility's petition based on its finding that additional evidence was needed to support the request for approval of the agreement. Citizens is reviewing the order and expects to file a new petition with additional evidentiary support for the agreement before the end of calendar year 2017. If the IURC approves 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 would 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, superseding the order that was effective March 2014.

In June 2015, Citizens filed a petition with the IURC requesting, among other things, an increase in Water base rate revenues. On December 23, 2015, the parties filed a settlement agreement with the IURC reflecting a proposed revenue increase of $27.8 million. On April 20, 2016, the IURC issued an Order (the 2016 Water Order) authorizing an annual revenue increase of $27.7 million or 16.0%. Recovery of debt service on all outstanding long-term debt of the Water System plus new long-term debt to be issued in 2016 (the Water 2016A bonds) was included in the Order (see Note 4 for a description of the Water 2016A bonds). The new schedule of rates and charges was implemented effective April 22, 2016, and was reduced by $0.9 million annually effective July 27, 2016, since the actual debt service on the Water 2016A bonds was $0.9 million less than the amount assumed in the 2016 Water Order.

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 has 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 October 30, 2017, the OUCC filed testimony arguing the authorized revenues CWA used to calculate its proposed System Integrity Adjustment were overstated and recommended the IURC approve a System Integrity Adjustment of no greater than $5.5 million. On November 6, 2017, CWA filed rebuttal testimony asserting the OUCC's position was based on an incorrect interpretation of Senate Enrolled Act 383 and reiterating its request for approval of a System Integrity Adjustment of $6.1 million. On November 16, 2017, the IURC conducted a hearing. The IURC is expected to rule on CWA's petition no later than December 28, 2017.

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.

In an order issued in April 2013, the IURC approved a continuation through 2015 of Westfield Gas' decoupling mechanism, which generally supports Westfield Gas' ability to recover its non-gas costs as authorized in its most recent rate case order despite changes in customer usage. Under the April 2013 order, if Westfield Gas wished to extend the decoupling mechanism beyond December 30, 2015, it was required to file a base rate case by that date.

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 December 22, 2016, Westfield Gas and the OUCC filed a Stipulation and Settlement Agreement, which included a rate increase and an extension to Westfield Gas's energy efficiency program portfolio and decoupling mechanism. On April 26, 2017, the IURC approved the Stipulation and Settlement Agreement 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.

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's proposed 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 October 6, 2017, the OUCC filed testimony recommending approval of the proposed SDC subject to a slight modification of the phased in increase to $2,000. 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. The IURC is expected to rule on Westfield Wastewater's petition no later than the end of the second quarter of fiscal year 2018.

B. Regulatory Assets and Liabilities

Citizens' and CWA's rates are designed to recover the costs of providing service, thus certain items that would normally be reflected in the Combined Statements of Operations are deferred on the Combined Statements of Financial Position. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to expense through the rate-making process. Citizens and CWA continuously monitor changes in market and regulatory conditions and consider the effects of any changes in assessing the continual applicability of the FASB guidance related to regulated entities.

Regulatory assets were comprised of the following at September 30, 2017 and 2016 (in thousands):

	2017	2016	Recovery Period	Statement of Financial Position Location
Deferred Acquisition Transaction Costs	**$ 8,131**	$ 8,747	25 - 26 years	Other deferred charges
System Integrity Adjustment - Wastewater	**6,140**	-	1 - 15 months	Other deferred charges
Decoupled Sales Component	**2,332**	4,066	1 - 15 months	Other deferred charges
Deferred Regulatory Proceeding Costs	**1,692**	1,512	1 - 3 years	Other deferred charges
Hedging Transaction Costs	**187**	-	1 - 13 months	Other current assets
Deferred Fuel Tracking Adjustments	**3,514**	1,241	1 - 18 months	Other current assets
Total Regulatory Assets	**$ 21,996**	$ 15,566		

Regulatory liabilities were comprised of the following at September 30, 2017 and 2016 (in thousands):

	2017	2016	Refund Period	Statement of Financial Position Location
Contributions in Aid of Construction	**$ 203,770**	$ 181,341	40 - 50 years	Contributions in aid of construction
Deferred Water Rights	**440**	529	6 - 7 years	Other long-term liabilities
Hedging Transaction Costs	**-**	77	1 - 13 months	Other current liabilities
Deferred Fuel Tracking Adjustments	**3,760**	5,417	1 - 18 months	Accounts payable and accrued expenses
Other	**372**	697	Various	Accounts payable and accrued expenses
Total Regulatory Liabilities	**$ 208,342**	$ 188,061		

12. COMMITMENTS AND CONTINGENCIES

A. Environmental Commitments and Contingencies

Citizens and CWA are subject to various environmental laws and regulations and believe they are in compliance with existing federal, state and local statutes, ordinances, rules and regulations governing environmental matters. Citizens and CWA have no way of estimating the enactment or promulgation of future environmental laws and regulations. See Note 9 for additional information regarding demolition and environmental remediation of the former Indianapolis Coke Manufacturing facility.

<u>Langsdale Environmental Remediation</u>
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 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 $8.4 million and $9.4 million at September 30, 2017 and 2016, 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.

<u>Potential National Priorities List Site, Indianapolis</u>
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. Currently the White River and Lower Pogues Run tunnels are under construction with mining beginning in September 2016. During fiscal year 2017, approximately 1.9 miles were mined for the White River and Lower Pogues Tunnels. 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 which will be constructed over a period of approximately seven years.

Lease Contractual Commitments
Citizens and CWA have entered into operating leases for storage of natural gas at various sites and for miscellaneous equipment. Lease expenses were $9.1 million and $10.6 million for the years ended September 30, 2017 and 2016, respectively. Future minimum lease payments under non-cancelable operating leases as of September 30, 2017 are as follows (in thousands):

2018	$	4,471
2019		433
2020		433
2021		433
2022		303
Thereafter		-
Total minimum lease payments	$	6,073

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.

Berkshire Square Apartment Fire
In January 2015, a complaint was filed by two individuals alleging Citizens and a co-defendant were negligent and caused them to suffer personal injuries as a result of a fire that occurred in an apartment complex in October 2014. The plaintiffs had alleged they incurred over $4.3 million in medical bills as a result of their injuries. Additionally, the plaintiffs sought payment for estimated future medical expenses, lost earning potential and related damages. In January 2017, Citizens and the plaintiffs reached a confidential mediation settlement agreement whereby the parties agreed to execute settlement documents including a release of all claims and a stipulation of dismissal of all claims against Citizens with prejudice. Citizens maintains excess liability insurance coverage from highly-rated insurers to mitigate financial exposure for these types of matters. Accordingly there was no impact to the Combined Statements of Operations as a result of this settlement. Proceeds have been recovered from the insurer, in full, and have been recorded in the combined financial statements as of September 30, 2017.

The insurer of the apartment complex also filed a complaint alleging property damage and loss of rental income of approximately $0.4 million. Citizens and the insurer of the apartment complex entered into a confidential settlement agreement in fiscal year 2016 that resulted in the insurer's complaint being dismissed. The settlement had no significant impact on Combined Statements of Operations for the twelve months ended September 30, 2016.

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 manages the Wastewater System and the stormwater system for the City of Indianapolis. Management and incentive fees with Suez were $10.7 million and $42.6 million for the twelve months ending September 30, 2017 and 2016 respectively. This included $1.3 million for stormwater management in 2017 and $5.1 million in 2016. The contract expired on January 1, 2017. Citizens had previously notified Suez that Citizens did not intend to renew or extend the current agreement beyond the January 1, 2017 contract expiration date. As a result, Citizens began operating and maintaining the wastewater system on that date.

Stormwater Management Agreement
Also in connection with the Wastewater System acquisition, the City retained ownership of its stormwater system; however, the stormwater system was managed and operated under the Management Agreement between the City and Suez, which agreement CWA assumed at the closing of that transaction. CWA and the City entered into a Stormwater Management Agreement and Plan of Cooperation whereby CWA managed and operated the stormwater system through Suez. The City compensated CWA approximately $5.6 million annually for services rendered for the stormwater system under the Management Agreement, the majority of which CWA was obligated to compensate Suez for services rendered for the stormwater system. In connection with the decision not to renew or extend the current agreement with Suez (as noted above), Citizens reached a separate agreement with the City to perform certain stormwater management functions for the City of Indianapolis through December 31, 2017. Financial activity related to stormwater management is recorded in the Citizens Energy Management Company entity in the Resources segment. In November 2017, Citizens and the City of Indianapolis reached an agreement whereby Citizens will continue to provide stormwater management functions for the City through December 31, 2022. Annual service fees to be received under this agreement will be $6.2 million for calendar year 2018 with fees increasing under the contract at a rate of 3% per annum.

Inventory Retainer and Transportation Agreement
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.

13. 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 Indy. 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 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 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 “Other deferred charges” in the 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 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 has recognized a net gain on the sale of $3.9 million in the Combined Statements of Operations.

14. SUBSEQUENT EVENTS

Management has considered the impact of subsequent events through December 13, 2017, the date at which these combined financial statements were issued.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Citizens Energy Group and Subsidiary and CWA Authority, Inc.

We have audited the accompanying combined financial statements of Citizens Energy Group and Subsidiary and CWA Authority, both of which are under common ownership and common management, which comprise the combined statements of financial position as of September 30, 2017 and 2016, and the related combined statements of operations, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the companies' preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the companies' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Citizens Energy Group and Subsidiary and CWA Authority as of September 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 13, 2017