ANNUAL FINANCIAL REPORT 2018

citizens energy group™

MANAGEMENT DISCUSSION & FINANCIAL REPORT

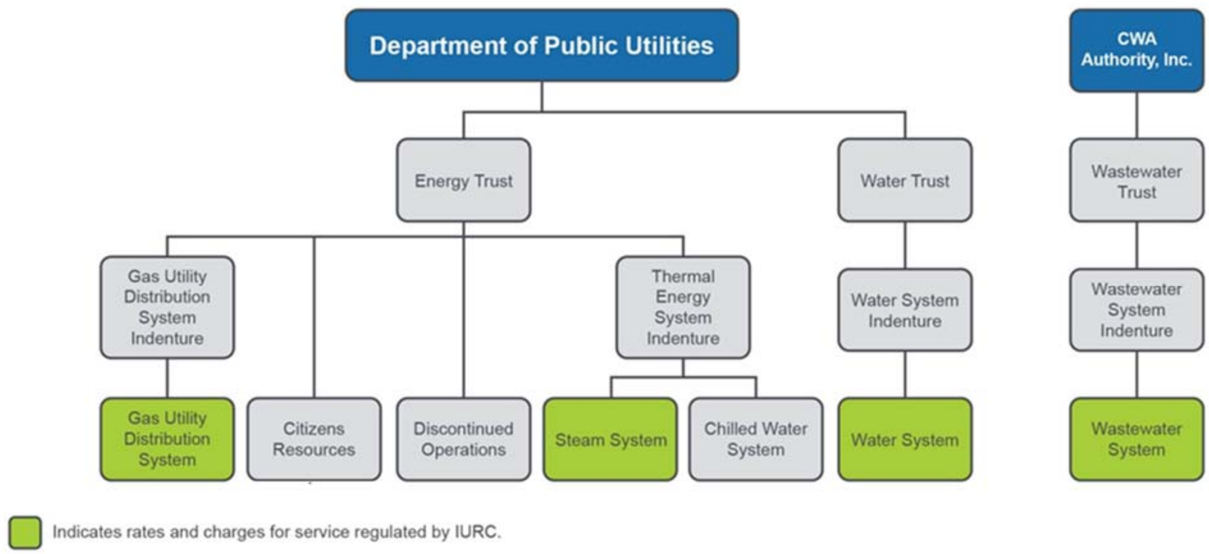
MANAGEMENT DISCUSSION AND ANALYSIS

Forward-looking Statements

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

Organization Structure

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



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

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

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

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

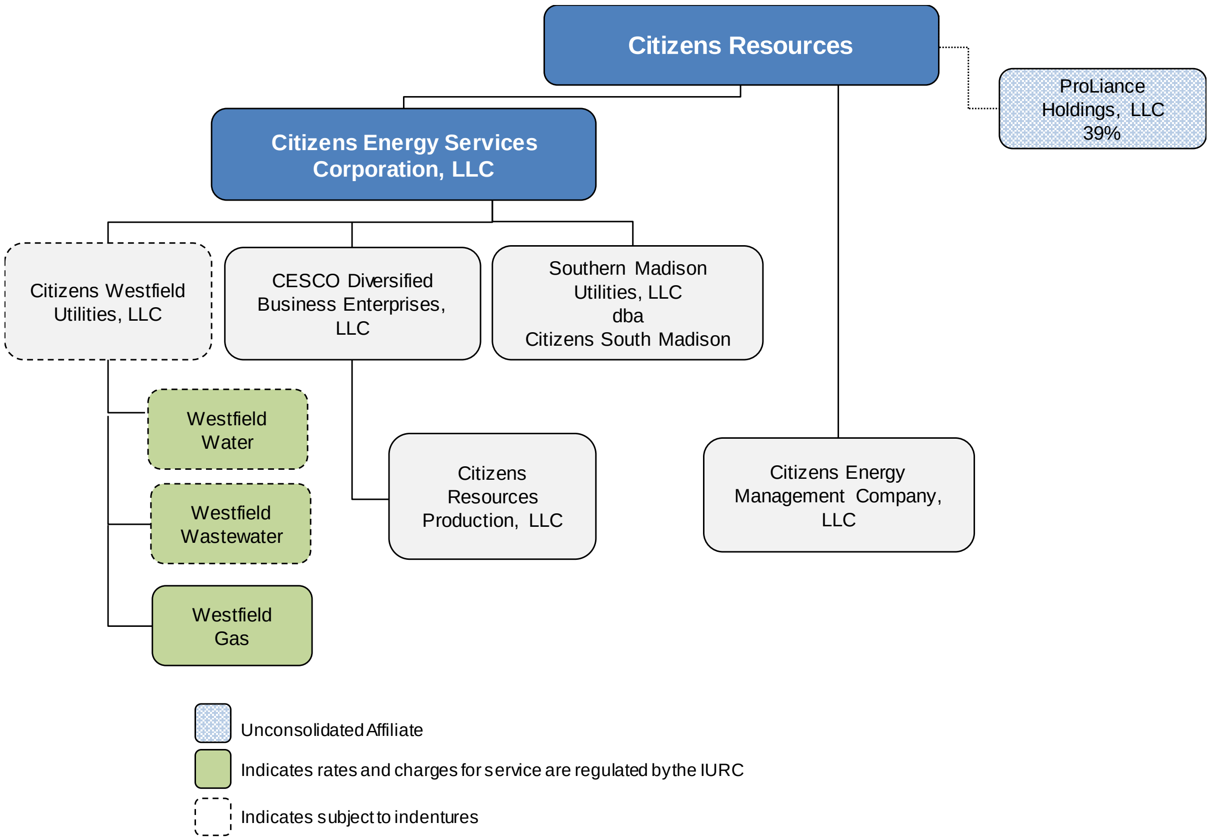
In addition as described above, each trust (i.e., the Energy Trust, the Water Trust, and the Wastewater Trust) exists separately from the other trusts. Thus, there are three separate public charitable trusts, each with a governmental entity serving as the trustee (the Energy Trust and the Water Trust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

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

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

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

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



FINANCIAL RESULTS

The tables and discussion below summarize the financial results for each segment (in millions) and present an analysis of the results of our operations for the twelve months ended September 30, 2018. For a more detailed understanding of these results, see the following notes to the combined financial statements:

- Note 2J – Investment in Unconsolidated Affiliates
- Note 3 – Long-Term Debt
- Note 7 – Financial Segment Information
- Note 8 – Manufacturing Discontinuation of Production And Related Asset Retirement Obligations
- Note 9 – Rate and Regulatory Matters, Wastewater
- Note 11 – Divestitures

SHARED SERVICES

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

	2018	2017	Change
Shared Services Expenses	$ 104.1	$ 107.5	$ (3.4)

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

Fiscal Year 2018 Compared with 2017

Shared services expenses decreased $3.4 million due primarily to lower pension and post-employment benefit costs and depreciation due to a decrease in depreciable assets, partially offset by higher employee healthcare expenses and contracted services.

GAS

	2018	2017	Change
Operating revenues	$ 259.9	$ 234.4	$ 25.5
Cost of goods sold	112.7	92.3	20.4
Margin	147.2	142.1	5.1
Other operating expenses	98.1	114.4	(16.3)
Operating income	49.1	27.7	21.4
Other income (expense), net	-	(0.2)	0.2
Interest charges	12.2	13.4	(1.2)
Segment income	$ 36.9	$ 14.1	$ 22.8
Volume sales, million Dth			
Retail	30.0	24.2	5.8
Transportation	20.7	20.3	0.4
Power generation and other	22.6	15.9	6.7
Cost of gas sold, per Dth	$ 3.75	$ 3.81	$ (0.06)
Heating degree days	5,314	4,284	1,030

Fiscal Year 2018 Compared with 2017

Margin – Gas margin was $5.1 million higher than prior period, largely driven by higher retail sales due to colder winter weather and increased power generation sales.

Other operating expenses – The decrease of $16.3 million principally results from the prior period $14.2 million loss recognized on the sale of LNG North plant assets and by lower shared services expense allocations.

Interest charges – The decrease of $1.2 million was largely due to lower outstanding debt as a result of principal payments and lower interest expense resulting from refunding of the Series 2008B bonds in March 2017.

STEAM

	2018	2017	Change
Operating revenues	$ 69.5	$ 68.5	$ 1.0
Cost of goods sold	35.5	36.3	(0.8)
Margin	34.0	32.2	1.8
Other operating expenses	24.9	25.9	(1.0)
Operating income	9.1	6.3	2.8
Other income (expense), net	0.1	0.1	-
Interest charges	3.2	3.5	(0.3)
Segment income	$ 6.0	$ 2.9	$ 3.1
Volume sales, million therms	64.3	58.6	5.7
Heating degree days	5,314	4,284	1,030

Fiscal Year 2018 Compared with 2017

Margin – Margin was $1.8 million higher largely attributed to increased volume sold due to colder winter weather compared with the prior year.

Other operating expenses – The decrease of $1.0 million was primarily driven by lower shared services expense allocations.

Interest charges – The decrease of $0.3 million was largely due to lower outstanding debt as a result of principal payments.

CHILLED WATER

	2018	2017	Change
Operating revenues	$ 37.9	$ 36.6	$ 1.3
Cost of goods sold	12.4	12.4	-
Margin	25.5	24.2	1.3
Other operating expenses	16.2	16.7	(0.5)
Operating income	9.3	7.5	1.8
Other income (expense), net	0.2	-	0.2
Interest charges	1.2	3.8	(2.6)
Segment income	$ 8.3	$ 3.7	$ 4.6
Volume sales, million ton hours	144.9	137.1	7.8
Cooling degree days	1,586	1,167	419

Fiscal Year 2018 Compared with 2017

Margin – Chilled Water margin was $1.3 million higher largely attributed to increased volume sold in a warmer summer season.

Other operating expenses – The $0.5 million decrease was largely driven by depreciation expense.

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

WATER

	2018	2017	Change
Operating revenues	$ 207.2	$ 203.3	$ 3.9
Other operating expenses	135.3	132.0	3.3
Operating income	71.9	71.3	0.6
Other income (expense), net	2.1	3.7	(1.6)
Interest charges	46.4	48.3	(1.9)
Segment income	$ 27.6	$ 26.7	$ 0.9
Volume sales, billion gallons	39.0	38.1	0.9

Fiscal Year 2018 Compared with 2017

Operating revenues – Increased revenues of $3.9 million are primarily attributable to residential customer growth and increased consumption.

Other operating expenses – The $3.3 million increase was driven by higher shared service expense allocations, property taxes, and contract services expense. These increases were partially offset by lower employee pension and post-employment benefit expense.

Other income (expense), net – The decrease of $1.6 million was due to the receipt of a contract termination payment for certain investment securities during the prior year.

Interest charges – The decrease of $1.9 million was largely due to the refunding of various Series 2011 bonds in November 2016.

WASTEWATER

	2018	2017	Change
Operating revenues	$ 279.2	$ 263.7	$ 15.5
Other operating expenses	179.5	169.3	10.2
Operating income	99.7	94.4	5.3
Other income (expense), net	2.9	0.9	2.0
Interest charges	71.2	58.8	12.4
Segment income	$ 31.4	$ 36.5	$ (5.1)
Treatment volume sales, billion gallons	33.2	34.2	(1.0)
Strength surcharge, million pounds	46.5	37.7	8.8

Fiscal Year 2018 Compared with 2017

Operating revenues – Increased revenues of $15.5 million were primarily driven by the implementation of a step 2 rate increase which became effective August 1, 2017, and an increased system integrity adjustment related to the next eligible period.

Other operating expenses – The $10.2 million increase was primarily driven by depreciation expense due to an increase in depreciable assets and increased payments in lieu of taxes (PILOT) per the established PILOT schedule.

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

Interest charges – The increase of $12.4 million was largely attributable to lower capitalized interest expense and additional borrowings of long-term debt to support capital projects.

RESOURCES

	2018	2017	Change
Operating revenues	$ 38.5	$ 43.0	$ (4.5)
Cost of goods sold	1.7	9.0	(7.3)
Margin	36.8	34.0	2.8
Other operating expenses	21.0	21.1	(0.1)
Operating income	15.8	12.9	2.9
Other income (expense), net	0.3	0.2	0.1
Equity in earnings (loss) of affiliates	(5.9)	0.5	(6.4)
Interest charges	3.2	2.8	0.4
Segment income	$ 7.0	$ 10.8	$ (3.8)

Fiscal Year 2018 Compared with 2017

Margin – Margin was $2.8 million higher than prior year primarily due to incremental margin from the Westfield utilities and increased stormwater management revenues. Additional margin from Heartland Gas Pipeline, which is consolidated in Resources financial results as of fiscal year 2018, was offset by the decrease in margin resulting from the sale of LNG Indy in the prior year.

Other operating expenses – Comparable to prior year as increased stormwater management expenses, increased expenses at Westfield utilities, and current year operating expenses of Heartland Gas Pipeline were offset by current year gains recognized on the sale of certain land parcels and the sale of certain assets of Citizens Resources Production.

Equity in earnings (loss) of affiliates – $6.4 million lower than the prior year driven by impairment charges and equity-method accounting losses recorded for an affiliate joint venture investment.

Interest charges – $0.4 million higher due to fair value mark-to-market adjustments recorded for interest rate swaps.

OTHER

	2018	2017	Change
Operating revenues	$ -	$ -	$ -
Operating expenses	0.2	0.1	0.1
Operating income (loss)	(0.2)	(0.1)	(0.1)
Other income (expense), net	(1.8)	(1.9)	0.1
Interest charges	0.1	0.1	-
Income (loss) from discontinued operations	40.1	(2.6)	42.7
Segment income (loss)	$ 38.0	$ (4.7)	$ 42.7

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 2018 Compared with 2017

Income (loss) from discontinued operations – The change is primarily due to a $43.0 million re-measurement to decrease the asset retirement obligation in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Debt and Liquidity

Please see Notes 3 and 4 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, 2018, capital expenditures, on an accrual basis, decreased by $48.9 million to $257.5 million from $306.4 million during the same period last year. This decrease is summarized in the table below (in millions). Certain accrued expenditures, including all capitalized interest, have been included in Other for segment presentation of Capitalized Expenditures, while the capitalized interest amounts on the segmented statements of financial position are reflected as Property, Plant, and Equipment in their respective segments.

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
2018	**$ 25.4**	**$ 5.4**	**$ 2.9**	**$ 50.4**	**$ 143.4**	**$ 7.8**	**$ 22.2**	**$ 257.5**
2017	22.9	3.2	2.1	44.1	197.3	6.5	30.3	306.4
	$ 2.5	$ 2.2	$ 0.8	$ 6.3	$ (53.9)	$ 1.3	$ (8.1)	$ (48.9)

Citizens' and CWA's projected capital spending requirement of $325.6 million for 2019 is summarized as follows (in millions):

	Gas	Steam	Chilled Water	Water	Wastewater	Resources	Other	Total
2019 Projection	**$ 22.9**	**$ 2.8**	**$ 2.6**	**$ 45.9**	**$ 200.6**	**$ 18.3**	**$ 32.5**	**$ 325.6**

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 $75.5 million at September 30, 2018. Gas expects to meet its capital spending requirements in 2019 through cash flows from operations and the temporary seasonal use of its credit lines.

Citizens Thermal's Steam business segment continues to invest in distribution assets and production equipment. Chilled Water capital spending plans similarly include investments in distribution assets and production equipment. At September 30, 2018, cash and cash equivalents of Steam and Chilled Water amounted to $11.1 million and $25.6 million, respectively. Steam expects to meet its capital spending requirements in 2019 through cash flows from operations and temporary seasonal use of its credit line while Chilled Water expects to meet its 2019 capital spending requirements through cash flows from operations.

The Water business segment has a capital improvement plan to address system reliability, maintain compliance with regulations, and implement various distribution system and treatment plant improvements. Water had cash and cash equivalents of $44.0 million at September 30, 2018. Water expects to meet its capital spending requirements in 2019 through a combination of cash flows from operations, and use of its line of credit.

The Wastewater business segment has a capital improvement plan to meet guidelines of the Combined Sewer Overflow Long-Term Control Plan and the overall needs of the Wastewater System. See Note 10 to the combined financial statements for additional information regarding the Combined Sewer Overflow Long-Term Control Plan. The capital improvement plan also includes other improvements to and expansion of the Wastewater System. Wastewater had cash and cash equivalents of $32.5 million at September 30, 2018. Wastewater expects to meet its capital spending requirements in 2019 through a combination of cash flows from operations, as well as from balances remaining from issuance of the Series 2017A State Revolving Fund bonds ($67.5 million; recorded in bond restricted funds), and its line of credit. See Note 9 – Wastewater, to the combined financial statements, for a discussion of regulatory matters affecting the liquidity and capital resources of the Wastewater business segment.

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

Citizens Energy Group and Subsidiary and CWA Authority Inc.

Combined Statements of Financial Position

(In Thousands)

	At September 30, 2018	At September 30, 2017
ASSETS		
Property, plant, and equipment		
Plant in service	$ 6,592,903	$ 6,009,852
Accumulated depreciation	3,372,718	3,244,452
	3,220,185	2,765,400
Construction work in progress	393,977	717,867
Total property, plant, and equipment	3,614,162	3,483,267
Intangible assets, net	61,598	65,301
Investments		
Bond restricted funds	349,204	446,937
Investment in affiliates	435	16,402
Other	22,124	24,616
Total investments	371,763	487,955
Current assets		
Cash and cash equivalents	249,923	299,632
Accounts receivable, less allowance for doubtful accounts of $2,282 and $2,411, respectively	74,164	70,500
Accrued utility revenue	24,324	23,401
Natural gas in storage	38,458	42,825
Materials and supplies	11,145	10,705
Other current assets	3,759	6,727
Current assets directly related to discontinued operations	1,761	504
Total current assets	403,534	454,294
Deferred charges	48,850	47,554
TOTAL ASSETS	**$ 4,499,907**	**$ 4,538,371**
CAPITALIZATION AND LIABILITIES		
Capitalization and non-current liabilities		
Retained earnings	$ 482,529	$ 327,635
Accumulated other comprehensive loss	(71,348)	(118,465)
Long-term debt (excluding current maturities)	3,214,522	3,383,224
Retirement benefits	121,363	172,923
Contributions in aid of construction	235,057	203,770
Other long-term liabilities	49,218	36,971
Non-current liabilities directly related to discontinued operations	22,790	71,635
Total capitalization and non-current liabilities	4,054,131	4,077,693
Current liabilities		
Current maturities of long-term debt	124,480	99,885
Short-term borrowings	56,500	51,200
Accounts payable and accrued expenses	171,718	220,472
Accrued taxes	60,530	55,433
Customer deposits and advance payments	24,236	21,602
Other current liabilities	7,251	8,833
Current liabilities directly related to discontinued operations	1,061	3,253
Total current liabilities	445,776	460,678
Commitments and contingencies (see note 10)		
TOTAL CAPITALIZATION AND LIABILITIES	**$ 4,499,907**	**$ 4,538,371**

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 and Comprehensive Income

(In Thousands)

	Fiscal Year Ended September 30, 2018	2017
Operating revenues	$ 878,664	$ 836,426
Operating expenses		
Cost of goods sold	151,142	137,971
Operations and maintenance	262,195	265,708
Depreciation and amortization	160,479	152,657
(Gain) loss on divestiture	(5,393)	10,312
Taxes	55,572	49,577
Total operating expenses	623,995	616,225
Operating income	254,669	220,201
Other income (expense), net		
Interest income	5,171	2,816
Other	(1,399)	(199)
Total other income, net	3,772	2,617
Income before equity in earnings of affiliates and interest charges	258,441	222,818
Equity in (losses) earnings of affiliates	(5,942)	481
Interest charges		
Interest on long-term debt	156,509	155,662
Other interest, including net premium amortization	(19,128)	(24,936)
Total interest charges	137,381	130,726
Income from continuing operations	115,118	92,573
Income (loss) from discontinued operations	40,186	(2,557)
Net income	**$ 155,304**	**$ 90,016**
Retirement benefit liability changes:		
Net gain arising during period	42,047	51,109
Amortization of prior service credit	(2,184)	(719)
Amortization of gain	7,688	11,845
Total retirement benefit liability changes	47,551	62,235
Unrealized (loss) gain on available-for-sale investments	(434)	363
Total other comprehensive income	47,117	62,598
Total comprehensive income	**$ 202,421**	**$ 152,614**

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, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 155,304	$ 90,016
Depreciation and amortization	152,111	145,817
(Gain) loss on divestiture or sale/impairment of assets	(6,562)	10,415
Loss on extinguishment of debt	-	2,332
Equity in losses (earnings) of affiliates, net of distributions	6,567	(481)
Allowance for doubtful accounts	4,201	3,487
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(8,408)	1,412
Natural gas in storage	4,367	(230)
Accounts payable and accrued expenses	(9,824)	3,899
Retirement benefits	(4,010)	2,367
Other operating activities	7,570	(14,988)
Change in net liabilities of discontinued operations	(52,294)	(247)
Net cash provided by operating activities	249,022	243,799
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(304,439)	(271,132)
Purchase of investment securities	(240,143)	(386,900)
Sale and maturity of investment securities	337,983	221,883
Divestiture proceeds, net of expenses	8,845	47,794
Acquisition of business, net of cash acquired	(3,364)	-
Other investing activities	1,615	9,277
Net cash used in investing activities	(199,503)	(379,078)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank line of credit	20,500	3,700
Repayment of bank line of credit	-	(84,100)
Proceeds from issuance of long-term debt	-	163,527
Principal payments of long-term debt and bond refunding	(134,718)	(469,350)
Proceeds from bond refunding	-	379,669
Bond issuance costs	(33)	(2,144)
Contributions in aid of construction	15,050	7,621
Other financing activities	(27)	(254)
Net cash used in financing activities	(99,228)	(1,331)
Net change in cash and cash equivalents	(49,709)	(136,610)
Cash and cash equivalents at beginning of fiscal year	299,632	436,242
Cash and cash equivalents at end of fiscal period	$ 249,923	$ 299,632
Supplemental Cash Flows Information - Interest paid	$ 147,583	$ 128,364
Non-cash Investing and Operating Activities		
Construction work-in-progress accrued at period end	$ 42,157	$ 88,276

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, 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**
Comprehensive income			
Net income	155,304	-	155,304
Unrealized gain (loss) on available-for-sale investments	-	(434)	(434)
Retirement benefit liability changes	-	47,551	47,551
Total comprehensive income	155,304	47,117	202,421
Customer benefit distributions	(410)	-	(410)
Balance at September 30, 2018	**$ 482,529**	**$ (71,348)**	**$ 411,181**

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

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

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

B. Basis of Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

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

Property, plant, and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads, and for additions meeting certain criteria, capitalized interest. Maintenance and repairs of property units are charged to expense as incurred.

Depreciation on plant for regulated utilities is computed on a straight-line basis using rates approved by the IURC. Depreciation on Chilled Water 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.

The cost of software upgrades and enhancements are capitalized if they result in added functionality. Information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process reengineering costs, are charged to operating expenses when 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):

	2018	2017	Useful Lives
Distribution	$ 2,094,320	$ 2,043,790	15 - 65 years
Collection	1,877,740	1,470,865	40 years
Treatment	1,704,889	1,692,100	40 - 50 years
Pumping	330,091	236,649	40 - 50 years
Source of supply	203,174	199,748	50 years
General plant	139,255	143,360	3 - 50 years
Production	120,266	126,397	5 - 75 years
Transmission	88,951	62,826	22 - 60 years
Gas Storage	34,217	34,117	33 - 60 years
	$ 6,592,903	$ 6,009,852	

Depreciation expense was $156.2 million and $148.3 million for the twelve months ended September 30, 2018 and 2017, 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 $11.7 million and $20.5 million for the twelve months ended September 30, 2018 and 2017, respectively.

C. 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 $42.2 million and $31.9 million at September 30, 2018 and 2017, respectively.

D. 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.

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 2018 and 2017.

F. Intangible Assets

Intangible assets at September 30, 2018 and September 30, 2017 consist of $61.6 million and $65.3 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, 2018 and 2017, respectively. Accumulated amortization for all intangible customer contracts was $42.9 million and $39.2 million at September 30, 2018 and 2017, respectively. Amortization expense of such assets was $3.7 million in each of the years ended September 30, 2018 and 2017. Estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows (in thousands):

2019	$ 3,703
2020	3,703
2021	3,703
2022	3,703
2023	3,703

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, 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. 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. An asset impairment was recorded in fiscal year 2018 related to an investment in an unconsolidated subsidiary (see note 2J). No asset impairments were recorded in fiscal year 2017.

I. 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. Partial repayment of the note receivable from ProLiance, an unconsolidated subsidiary (see Note 2J), was received in fiscal year 2018. The allowance was adjusted in fiscal 2018 to reflect the estimated collectible balance of the note receivable. Interest earned on the ProLiance note was $0.2 million and $0.3 million in 2018 and 2017, respectively. The note receivable from LNG Indy was issued pursuant to the divestiture of LNG Indy (see Note 11). The following table presents Citizens' notes receivable, which are recorded in Other Investments on the Combined Statements of Financial Position, whose carrying value approximates fair value, as of September 30, 2018 and 2017 (in thousands):

	Notes Receivable at September 30, 2018		
Description	Balance	Related Allowance	Receivable Net of Allowance
Note Receivable from ProLiance	$ 2,806	$ 2,806	$ -
Note Receivable from LNG Indy	4,000	-	4,000
	$ 6,806	$ 2,806	$ 4,000

	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

J. Investment in Unconsolidated Affiliates

Unconsolidated affiliates at September 30, 2017 include ProLiance Holdings, LLC (ProLiance), a jointly-owned affiliate of Resources (39%) and Vectren Energy Marketing & Services, Inc., (61%); and Heartland Gas Pipeline, LLC (HGP), an affiliation of equal ownership between Resources and ProLiance. Both investments were accounted for under the equity method. In December 2017, Resources purchased ProLiance's 50% ownership share of HGP for a price representing 50% of the net book value of HGP, resulting in Resources owning 100% of HGP. Accordingly, the financial results of HGP are consolidated in the Resources segment beginning December 1, 2017. The transaction was accounted for as a business acquisition. Fair value of the net assets acquired approximated their book value; therefore there was no excess purchase price allocated to goodwill or other intangible assets acquired. To facilitate the purchase of HGP, Gas advanced Resources approximately $15.4 million in cash during December 2017. Upon receipt of regulatory approval in September 2018, the property, plant, and equipment of HGP was transferred from Resources to Gas as HGP's assets are ultimately used exclusively by Gas in its operations. After settlement of any outstanding liabilities, the remaining assets of Heartland Gas Pipeline will be dissolved in fiscal 2019. Resources expects any gain or loss on dissolution of HGP to be immaterial. Resources also recognized a $1.9 million impairment of its remaining investment in ProLiance in December 2017 and $3.7 million of losses under the equity-method for the same affiliate in June 2018.

Activity for fiscal years 2018 and 2017 for the investment in affiliates is as follows (in thousands):

	ProLiance	Heartland	Total
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
Fiscal year 2018 activity	(6,690)	(9,277)	(15,967)
Investment in affiliates as of September 30, 2018	$ 435	$ -	$ 435

K. Customers' 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.

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, 2018 for Water, Wastewater, and Resources are $106.7 million, $75.9 million, and $52.4 million, respectively, versus the values at September 30, 2017 for Water, Wastewater, and Resources of $86.2 million, $65.9 million, and $51.7 million, respectively.

L. 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.

M. Derivatives and Hedging

In 2018 and 2017, Citizens entered into certain derivative and economic hedging transactions with the objective of decreasing the volatility associated with fluctuating natural gas prices. Through a combination of fixed-price purchases, caps, collars and storage, Citizens Gas mitigates the risk of price volatility on approximately 80 percent of its anticipated system supply gas purchases. Citizens' Hedging Transaction Cost Policy sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. These instruments, in conjunction with physical gas supply contracts, are designated to cover estimated gas customer requirements. Such energy contracts, to the extent they are not considered "normal" as defined by FASB guidance, are recognized at fair value as derivative assets or liabilities on the Combined Statements of Financial Position. Gains/losses and fees associated with these derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. Accordingly, the offset to the change in fair value of these derivatives is recorded as a regulatory asset or liability. The impact of commodity contracts was not material to the combined financial statements in any of the periods presented.

N. 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, 2018 and September 30, 2017 (in thousands):

	September 30, 2018 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	**$ 42,243**	**$ -**	**$ -**
Bond restricted funds	**336,191**	**-**	**-**
Grantor Trust investments	**15,355**	**-**	**-**
Derivative assets	**199**		**-**
Total financial assets measured at fair value	**$ 393,988**	**$ -**	**$ -**
Financial Liabilities:			
Derivative liabilities	**$ -**	**$ -**	**$ -**

	September 30, 2017 Fair Value Measurements Using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	$ 31,863	$ -	$ -
Bond restricted funds	433,924	-	-
Grantor Trust investments	15,046	-	-
Derivative assets	203	-	-
Total financial assets measured at fair value	$ 481,036	$ -	$ -
Financial Liabilities:			
Derivative liabilities	$ -	$ 162	$ -

Under the terms of various trust indentures, Citizens and CWA are required to maintain bond restricted funds. These bond restricted funds are invested in short-term securities, commercial paper, a guaranteed investment contract, and cash equivalents. Due to the nature of these investments, cost approximates fair market value of $349.2 and $446.9 million at September 30, 2018 and September 30, 2017, respectively. In accordance with fair value disclosure guidance, $13.0 million of investments in a guaranteed investment contract are excluded in determining the fair value of bond restricted funds pursuant to ASC 825-10-50-8c at September 30, 2018 and September 30, 2017.

Included in bond restricted funds at September 30, 2017 are approximately $9.6 million of proceeds from CWA's First Lien Wastewater Revenue Bonds, Series 2016C. Also included in bond restricted funds at September 30, 2018 and September 30, 2017 are, $67.5 million and $149.0 million, respectively, of proceeds from CWA's First Lien Wastewater Revenue Bonds, Series 2017A which are held by the Indiana Finance Authority (IFA) until certain conditions for disbursement are met. Such funds are invested in money market funds together with additional amounts committed to other participants in the IFA's Wastewater Revolving Loan Program due to the rapid disbursement of such proceeds by the IFA to such participants. Gross deposits to the bond restricted fund investments during 2018 and 2017 were $236.3 million and $229.5 million, respectively.

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

Gains/losses and fees associated with the commodity based derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. There were no transfers between levels during the 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 $3.3 billion and $3.6 billion at September 30, 2018 and 2017, respectively, versus carrying value of $3.3 billion and $3.5 billion at September 30, 2018 and 2017, respectively. In the case of Resources debt, the carrying value approximates fair value.

Customers' advances for construction have a carrying value at September 30, 2018 for Water, Wastewater, and Resources of $13.4 million, $2.9 million, and $4.0 million, respectively, versus the carrying values at September 30, 2017 for Water, Wastewater, and Resources of $14.0 million, $1.7 million, and $6.0 million, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2028 and amounts not paid by the respective contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

O. 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.

P. Comprehensive Income (Loss)

Comprehensive income (loss) is primarily a measure of all changes in equity of an enterprise which result from the transactions or other economic events during the period. This information is reported in the Combined Statements of Comprehensive Income. Citizens' components of accumulated other comprehensive (loss) income (AOCI) include the impact of pension and other post-employment benefits and mark to market valuation adjustments for available for sale investments. The following table presents changes in accumulated other comprehensive (loss) income by component for the twelve months ended September 30, 2018 (in thousands):

	Pension Plan	Other Postemployment Benefits	Other	Total
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)
Other comprehensive income (loss) before reclassifications	28,007	13,974	(434)	41,547
Amounts reclassified from accumulated other comprehensive income (loss)	6,667	(1,097)	-	5,570
Net current-period other comprehensive income (loss)	34,674	12,877	(434)	47,117
Accumulated other comprehensive (loss) income at September 30, 2018	$ (78,191)	$ 7,056	$ (213)	$ (71,348)

Q. New Accounting Guidance

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), providing guidance regarding the principles and standards for revenue recognition. The standard creates a framework for recognizing revenue to improve comparability of revenue recognition practices across entities and industries. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The updated guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The updated guidance is effective for annual periods beginning after December 15, 2017, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the updated guidance in each prior reporting period, or (ii) a modified retrospective approach with the cumulative effect of initially adopting the updated guidance recognized through retained earnings at the date of adoption.

In 2018, the Company performed an evaluation of the requirements of the updated guidance and determined the impact of adoption will not result in a material change to the timing of revenue recognized or net income:

- The Company's tariff sale contracts, including those with lower credit quality customers, are generally deemed to be probable of collection, and thus the timing of revenue recognition will continue to be concurrent with the delivery of utility services, consistent with current practice.
- Contributions in aid of construction are outside of the scope of the standard, and will continue to be accounted for as a noncurrent liability.

The Company plans to elect the full retrospective transition approach upon adoption effective October 1, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which will replace existing accounting guidance for leases. The new standard requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. ASU 2016-02 also requires qualitative and specific quantitative disclosures to supplement amounts recorded in the financial statements. This ASU is effective for reporting periods beginning after December 15, 2018. The Company is presently evaluating the impact of adopting this guidance and at this time adoption of these changes is not expected to have a material impact to the Company's combined financial statements.

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

3. LONG-TERM DEBT

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

	(In Thousands)					
	September 30, 2018			September 30, 2017		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Gas						
Gas Utility System Series 1986B, Revenue Refunding Bonds, 3.50% to 4.00% Paid in full June 1, 2018	**$ -**	**$ -**	**$ -**	$ -	$ 11,065	$ (200)
Gas Utility Distribution System Series 2008C, 2nd Lien Revenue Refunding Bonds, 5.00% to 5.25%, due 2018 to 2021	**27,085**	**14,950**	**653**	42,035	3,330	1,063
Gas Utility Distribution System Series 2009A, 2nd Lien Revenue Refunding Bonds, 4.00% to 5.00% Paid in full June 1, 2018	**-**	**-**	**-**	-	11,665	74
Gas Utility Distribution System Series 2010A, 2nd Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2024	**59,495**	**480**	**1,353**	59,975	-	1,590
Gas Utility Distribution System Series 2013A, 2nd Lien Revenue Refunding Bonds, 4.125% to 5.250%, due 2027 to 2030	**54,465**	**-**	**1,234**	54,465	-	1,320
Gas Utility Distribution System Series 2017A, 2nd Lien Revenue Refunding Bonds 5.00%, due 2025 to 2027	**49,825**	**-**	**7,910**	49,825	-	8,800
Subtotal Gas Long-Term Debt	**190,870**	**15,430**	**11,150**	206,300	26,060	12,647
Thermal						
Thermal Energy System Series 2010A, First Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2018 to 2029	**1,040**	**490**	**5**	1,530	470	10
Thermal Energy System Series 2010B, First Lien Revenue Refunding Bonds, 5.00%, due 2018 to 2021	**22,700**	**7,950**	**866**	30,650	7,615	1,475
Thermal Energy System Series 2013A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2018 to 2033	**7,075**	**330**	**59**	7,405	320	70
Thermal Energy System Series 2014A, First Lien Revenue Refunding Bonds, 2.00% to 5.00%, due 2018 to 2034	**30,795**	**1,255**	**2,774**	32,050	1,205	3,042

(In Thousands)

	September 30, 2018			September 30, 2017		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Thermal Energy System Series 2016A, First Lien Revenue Refunding Bonds, 5.00%, due 2021 to 2029	**50,410**	**-**	**7,458**	50,410	-	8,717
Subtotal Thermal Long-Term Debt	**112,020**	**10,025**	**11,162**	122,045	9,610	13,314
Water						
Water Utility Series 2011C (ILPIBB 2006A)*, First Lien Net Revenue Bonds, 5.50%, due 2018 to 2022	**37,090**	**7,465**	**(39)**	44,555	10,055	(52)
Water Utility Series 2011D (ILPIBB 2007D)*, First Lien Net Revenue Bonds, 5.25%, due 2022 to 2025	**70,410**	**-**	**(61)**	70,410	-	(66)
Water Utility Series 2011F (ILPIBB 2009A)*, First Lien Net Revenue Bonds, 4.00% to 5.75%, due 2018 to 2038	**410,385**	**5,160**	**(364)**	415,545	5,615	(397)
Water Utility Series 2011G (ILPIBB 2011E)*, First Lien Net Revenue Bonds, 3.25% to 5.125%, due 2018 to 2041	**50,245**	**1,275**	**(45)**	51,520	1,225	(50)
Water Utility Series 2014A, First Lien Net Revenue Bonds, 3.00% to 5.00%, due 2018 to 2044	**25,230**	**510**	**1,489**	25,740	490	1,535
Water Utility Series 2014B, 2nd Lien Revenue Refunding Bonds, 2.95%, due 2022	**43,595**	**-**	**(167)**	43,595	-	(209)
Water Utility Series 2016A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2018 to 2046	**66,785**	**1,140**	**12,266**	67,925	1,090	12,764
Water Utility Series 2016B, First Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2018 to 2038	**216,895**	**3,000**	**34,374**	219,895	-	36,769
Subtotal Water Long-Term Debt	**920,635**	**18,550**	**47,453**	939,185	18,475	50,294
Wastewater						
CWA Wastewater Utility Series 2011A, First Lien Revenue Bonds, 2.50% to 5.25%, due 2018 to 2041	**600,760**	**13,610**	**27,241**	614,370	12,965	28,589

	(In Thousands)					
	September 30, 2018			September 30, 2017		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
CWA Wastewater Utility Series 2011B, Second Lien Revenue Bonds, 5.00% to 5.25%, due 2018 to 2041	**243,020**	**5,500**	**4,200**	248,520	5,235	4,461
CWA Wastewater Utility Series 2012A, First Lien Revenue Bonds, 2.75% to 5.00%, due 2018 to 2042	**174,510**	**3,835**	**14,560**	178,345	3,650	15,514
CWA Wastewater Utility Series 2014A, First Lien Revenue Bonds, 4.00% to 5.00%, due 2018 to 2044	**221,460**	**4,135**	**18,857**	225,595	3,935	19,835
CWA Wastewater Utility Series 2015A, First Lien Revenue Bonds, 3.00% to 5.00%, due 2018 to 2045	**151,055**	**2,685**	**20,749**	153,740	2,555	21,724
CWA Wastewater Utility Series 2016A, First Lien Revenue Bonds 2.00% to 5.00%,due 2018 to 2046	**187,310**	**3,010**	**36,708**	190,320	2,950	38,224
CWA Wastewater Utility Series 2016B, 2nd Lien Revenue Refunding Bonds, 3.00% to 5.00%,due 2018 to 2046	**41,940**	**815**	**2,248**	42,755	790	2,429
CWA Wastewater Series 2016C, First Lien Revenue Bonds (SRF), 2.00%, due 2018 to 2036	**11,035**	**540**	**(85)**	11,575	530	(94)
CWA Wastewater Series 2017A, First Lien Revenue Bonds (SRF), 3.53%, due 2018 to 2047	**156,927**	**3,256**	**(78)**	160,182	3,344	(157)
Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds, see table below	**-**	**-**	**-**	-	7,483	-
Subtotal Wastewater Long-Term Debt	**1,788,017**	**37,386**	**124,400**	1,825,402	43,437	130,525
Resources						
Citizens Westfield Utilities Series 2014A, Revenue Bonds, 90% of 3-month LIBOR plus 2.674% with an offsetting swap of 1.3615% less 74% of 3-month LIBOR **, due 2019	**9,000*** **	**19,454**	**(138)**	60,454	2,303	(430)
Citizens Westfield Water Series 2014A, Revenue Bonds, 90% of 1-month LIBOR plus 1.945% with an offsetting swap of 1.2918% less 74% of 1-month LIBOR ** due 2019	**-**	**8,365**	**(17)**	8,365	-	(52)

	September 30, 2018 (In Thousands)			September 30, 2017		
	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)	Long-term debt excl. current maturities	Current maturities	Unamortized (Discount), Premium, and (Issuance Costs)
Citizens Westfield Wastewater Series 2014A, Revenue Bonds, 90% of 1-month LIBOR plus 1.945% with an offsetting swap of 1.2918% less 74% of 1-month LIBOR ** due 2019	**-**	**15,270**	**(30)**	15,270	-	(95)
Subtotal Resources Long-Term Debt	**9,000**	**43,089**	**(185)**	84,089	2,303	(577)
Total Long-Term Debt	**$3,020,542**	**$ 124,480**	**$ 193,980**	$3,177,022	$ 99,885	$ 206,202

* Indianapolis Local Public Improvement Bond Bank (ILPIBB)
** Interest rate swaps expired on September 21, 2018.
*** Refinanced $9 million of Series 2014A Revenue Bonds; see below.

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

2019	$ 124,480
2020	91,171
2021	98,170
2022	103,008
2023	150,206
Thereafter	2,577,987
Total principal maturities	$ 3,145,022

Recent Debt Transaction Activity

On March 21, 2018 and October 15, 2018, CWU repaid $32.5 million and $19.5 million, respectively, of debt prior to its maturity date as permitted in the indenture between CWU and its lenders.

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

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

Debt Refinancing

As noted above, on October 15, 2018, CWU repaid approximately $19.5 million of the Citizens Westfield Utilities Revenue Bonds and shortly thereafter refinanced the remaining $9 million with a maturity date of 2023. In November 2018, the IURC approved petitions from Westfield Water and Westfield Wastewater to refinance their outstanding debt (see Note 9A). Management expects to refinance Westfield Water and Westfield Wastewater's outstanding debt with external security issuances in the second quarter of fiscal year 2019.

Other Long-Term Debt Obligations

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

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

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 2018:

	Minimum Coverage Requirement	2018 Actual
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	2.81
Thermal Energy System Revenue Bonds Series 2010A and 2010 B, Series 2013A, Series 2014A, and Series 2016A	1.0	1.83
Water Utility Net Revenue Bonds Series 2011C, Series 2011D, Series 2011F, 2011G, Series 2014A, Series 2016A, and 2016B	1.2	1.80
Water Utility Net Revenue Second Lien Bonds Series 2014B	1.1	1.76
CWA Wastewater Utility Revenue Bonds Series 2011A, Series 2012A, Series 2014A, Series 2015A, Series 2016A, 2016C, and 2017A	1.2	2.04
CWA Wastewater Utility Revenue Second Lien Bonds Series 2011B and 2016B	1.1	1.71

As of September 30, 2018, 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 calculating and 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.

4. SHORT-TERM AND OTHER BORROWINGS

Gas

Gas had $50.0 million in commercial paper outstanding at September 30, 2018 and September 30, 2017. The commercial paper has a maximum maturity of 270 days. It last remarketed in December 2018 and will remarket again in April 2019. Commercial paper is backed by a two year letter of credit issued by J.P. Morgan Chase which matures on July 12, 2020. Gas has two three year working capital lines of credit amounting to $50.0 million. The $25.0 million line of credit agreement with BMO Harris Bank NA has a maturity date of August 3, 2019 with an interest rate of LIBOR plus 1.25 percent. The $25.0 million line of credit with J.P. Morgan Chase has a maturity date of August 13, 2021 with an interest rate of LIBOR plus 1.25 percent. At September 30, 2018 and September 30, 2017, Gas had no amount outstanding under either line of credit.

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

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

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

Wastewater
On September 28, 2017 CWA closed on a reduction of the capital expenditure line of credit from $145.0 million to $100.0 million and extended the maturity date from September 30, 2017 to September 30, 2020. The line of credit is with a syndicate of JP Morgan Chase and Wells Fargo, each with equal participation and with JP Morgan Chase acting as Administrative Agent, at an interest rate of 87.8 percent of LIBOR plus 0.84 percent and a commitment fee of 0.22 percent. At September 30, 2018 and September 30, 2017, $20.0 million and $0.0 million, respectively, were outstanding on the line of credit, classified as non-current liabilities in the Combined Statements of Financial Position in the line item labeled, "Other long-term liabilities".

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

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

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

5. 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):

	2018	2017
Accounts payable	$ 70,840	$ 112,587
Accrued interest	64,415	65,325
Customer credit balances	14,407	17,903
Salaries and employee benefits	16,893	18,305
Post-employment benefits	4,993	5,121
Other	170	1,231
Total accounts payable and accrued expenses	$ 171,718	$ 220,472

6. 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 $2.3 million for the years ended September 30, 2018 and 2017, 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 are $15.4 million and $15.0 million at September 30, 2018 and 2017, respectively.

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, 2018 and 2017 (in thousands):

	Defined Benefit Plan		Other Benefits	
	2018	2017	**2018**	2017
Projected Benefit Obligation (PBO)	**$ 390,564**	$ 408,714	**$ 75,180**	$ 89,546
Plan assets at fair value	**336,015**	315,091	**-**	-
Funded status	**$ (54,549)**	$ (93,623)	**$ (75,180)**	$ (89,546)
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Current liability	**$ -**	$ -	**$ (5,331)**	$ (5,494)
Non-current liability	**(54,549)**	(93,623)	**(69,849)**	(84,052)
Net amounts recognized	**$ (54,549)**	$ (93,623)	**$ (75,180)**	$ (89,546)
*Amounts in Accumulated Other Comprehensive Income (AOCI), not in costs: **				
Unrecognized prior service cost	**$ 795**	$ 949	**$ (21,286)**	$ (20,406)
Unrecognized actuarial loss	**77,403**	111,923	**14,223**	26,220
Total amounts in AOCI	**$ 78,198**	$ 112,872	**$ (7,063)**	$ 5,814
Accumulated Benefit Obligation (ABO)	**$ 356,422**	$ 369,109		

* The amounts expected to be recognized in 2019 out of AOCI are $3.8 million for the defined benefit pension plan and $1.8 million for the other benefits.

In accordance with the Mortality Improvement Scale RP-2014 using MP-2017, Citizens applied the new mortality assumptions which were used in the determination of the projected benefit obligation as of September 30, 2018. The net periodic benefit cost for these plans included the following components (in thousands):

	Defined Benefit Plan		Other Benefits	
	2018	2017	**2018**	2017
Service cost-benefits attributed to service during the period	**$ 13,459**	$ 13,088	**$ 1,667**	$ 3,904
Interest cost	**12,769**	11,658	**2,457**	2,424
Expected return on assets	**(18,269)**	(17,182)	**-**	-
Amortization of prior service cost	**154**	154	**(2,337)**	(873)
Amortization of loss	**6,448**	10,651	**1,240**	1,201
Settlement loss recognized	**84**	116	**-**	-
Net periodic benefit cost	**$ 14,645**	$ 18,485	**$ 3,027**	$ 6,656

Accounting for pensions and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's benefit obligations are as follows:

	Citizens Defined Benefit Pension		Water Defined Benefit Pension		Citizens Post Retirement Benefit		Water Supplemental Benefit	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Weighted average assumptions used to determine benefit obligations as of September 30:								
Discount rate	**4.09%**	3.68%	**3.84%**	3.19%	**3.98%**	3.50%	**3.94%**	3.39%
Rate of compensation increase	**3.15%**	3.50%	**-**	-	**-**	-	**-**	-
Assumed health care cost trend rates used to determine benefit obligations as of September 30:								
Health care cost trend rate	n/a	n/a	n/a	n/a	**8.00%**	8.00%	n/a	n/a
Ultimate trend rate	n/a	n/a	n/a	n/a	**4.80%**	5.00%	n/a	n/a
Year rate reaches ultimate trend rate	n/a	n/a	n/a	n/a	**2026**	2023	n/a	n/a

The significant assumptions related to the Company's net periodic benefit costs are as follows:

	Citizens Defined Benefit Pension		Water Defined Benefit Pension		Citizens Post Retirement Benefit		Water Supplemental Benefit	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Weighted average assumptions used to determine net periodic benefit costs for years ended September 30:								
Discount rate	**3.68%**	3.39%	**3.19%**	2.78%	**3.47%**	3.12%	**3.39%**	3.03%
Expected return on plan assets	**5.77%**	6.10%	**5.77%**	6.10%	**n/a**	n/a	**n/a**	n/a
Rate of compensation increase	**3.50%**	3.50%	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a
Assumed health care cost trend rates used to determine net periodic benefit costs as of September 30:								
Health care cost trend rate	n/a	n/a	n/a	n/a	**8.00%**	8.00%	n/a	n/a
Ultimate trend rate	n/a	n/a	n/a	n/a	**5.00%**	5.00%	n/a	n/a
Year rate reaches ultimate trend rate	n/a	n/a	n/a	n/a	**2023**	2022	n/a	n/a

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

	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total of annual service and interest cost components	$ 517	$ (435)
Effect on accumulated postretirement benefit obligation	6,920	(6,024)

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 2018 and 2017.

The following table presents the pension assets measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2018 and 2017 (in thousands):

	2018 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	**$ 6,434**	**$ -**	**$ -**
Equities	**204,475**	**-**	**-**
Fixed income	**125,107**	**-**	**-**
Total pension assets measured at fair value	**$ 336,016**	**$ -**	**$ -**

	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	$ -	$ -

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

Citizens' pension plan weighted-average asset allocation as of September 30, 2018 and 2017, by asset category is as follows:

	2018	2017
Equity securities	**61%**	62%
Debt securities	**37%**	35%
Cash and cash equivalents	**2%**	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	
	2018	2017	**2018**	2017
Employer contributions (net of participant contributions)	**$ 19,046**	$ 20,347	**$ 4,516**	$ 5,261
Benefits paid	**17,410**	16,113	**4,516**	5,261

Citizens expects to contribute, at a minimum, $18.8 million to the pension plans for 2019. The following retirement benefit payments, which reflect future service, as appropriate, are expected to be paid (in thousands):

	Defined Benefit Plan	Other Benefits
2019	$ 18,484	$ 5,332
2020	18,412	5,204
2021	19,448	5,216
2022	20,193	5,562
2023	20,443	5,601
Years 2024 - 2028	116,019	25,451

7. FINANCIAL SEGMENT INFORMATION

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

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

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

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

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

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

Resources conducts for-profit business activities in order to ultimately provide enhanced benefits to Citizens' beneficiaries. Resources includes affiliate joint venture investments of $0.4 million and $16.4 million at September 30, 2018 and September 30, 2017, respectively. Resources also includes several wholly-owned subsidiaries under CESCO, which serves as a holding company for several LLC subsidiaries. CESCO subsidiaries include: Citizens Westfield Utilities, which is the holding company for the three utilities serving Westfield (Westfield Gas, Westfield Water, and Westfield Wastewater); CESCO Diversified Business Enterprises, which is the holding company for Citizens Resources Production LLC, an oil producer; and Citizens South Madison (CSM), a small unregulated water utility. In addition, Resources provides stormwater management services to the City of Indianapolis through Citizens Energy Management Company, LLC. As of December 2017, Resources also owns Heartland Gas Pipeline, LLC, which provides gas transportation and storage services to Gas.

In the table below, Other includes certain non-profit instrumentalities, as well as advertising and philanthropic costs that are not recoverable through rates and are funded by contributions from non-regulated segments. Other also includes shared services comprised of various administrative and operational departments that provide support services to each of Citizens and CWA business segments, certain affiliates and the combined enterprise as a whole, and allocates the associated cost of the services to the appropriate segment. Management reviews the allocation methodology for shared services on a regular basis and refines the methodology as necessary. The former Manufacturing business segment has been reported as Discontinued Operations and is also included in Other. To the extent certain business segments purchase services from one another, these amounts have been eliminated on the face of the 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, 2018 and 2017 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, 2018

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

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									
Equity	$ 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 Operations

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
For the Twelve Months Ended September 30, 2018

	Gas	Steam	Chilled Water	Water	Waste-water	Resources	Other	Elimin-ations	Total
Operating revenues									
Customer revenues	$256,960	$64,057	$37,914	$206,013	$278,126	$ 35,594	$ -	$ -	**$ 878,664**
Intercompany revenues	2,914	5,488	-	1,222	1,121	2,889	-	(13,634)	**-**
Gross operating revenues	259,874	69,545	37,914	207,235	279,247	38,483	-	(13,634)	**878,664**
Operating expenses:									
Cost of goods sold	112,751	35,486	12,389	-	-	1,711	-	(11,195)	**151,142**
Operations and maintenance	65,092	18,380	8,235	77,985	76,556	18,514	(203)	(2,364)	**262,195**
Depreciation and amortization	23,983	5,177	5,463	42,136	78,024	5,696	-	-	**160,479**
Loss (gain) on divestiture	-	-	-	-	-	(5,393)	-	-	**(5,393)**
Taxes	9,043	1,389	2,505	15,137	24,953	2,134	411	-	**55,572**
Total operating expenses	210,869	60,432	28,592	135,258	179,533	22,662	208	(13,559)	**623,995**
Operating income (loss)	49,005	9,113	9,322	71,977	99,714	15,821	(208)	(75)	**254,669**
Other income (expense), net:									
Interest income	324	109	169	1,431	2,853	176	147	(38)	**5,171**
Other	(314)	-	-	635	83	196	(1,999)	-	**(1,399)**
Total other income (expense), net	10	109	169	2,066	2,936	372	(1,852)	(38)	**3,772**
Income (loss) before equity in losses of affiliates and interest charges	49,015	9,222	9,491	74,043	102,650	16,193	(2,060)	(113)	**258,441**
Equity in losses of affiliates	-	-	-	-	-	(5,942)	-	-	**(5,942)**
Interest charges:									
Interest on long-term debt	11,267	3,882	2,138	48,507	88,189	2,526	38	(38)	**156,509**
Other interest, including net discount (premium) amortization	889	(683)	(976)	(2,106)	(16,968)	699	17	-	**(19,128)**
Total interest charges	12,156	3,199	1,162	46,401	71,221	3,225	55	(38)	**137,381**
Income (loss) from continuing operations	36,859	6,023	8,329	27,642	31,429	7,026	(2,115)	(75)	**115,118**
Income from discontinued operations	-	-	-	-	-	-	40,111	75	**40,186**
Net income (loss)	$ 36,859	$ 6,023	$ 8,329	$ 27,642	$ 31,429	$ 7,026	$37,996	$ -	**$ 155,304**

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 Cash Flows

Citizens Energy Group and Subsidiary and CWA Authority, Inc.
(In Thousands)
For the Twelve Months Ended September 30, 2018

	Gas	Steam	Chilled Water	Water	Waste-Water	Resources	Other	Total
Net cash provided by (used in) operating activities	$ 59,955	$ 10,877	$ 12,577	$ 60,849	$ 101,021	$ 12,714	$ (8,971)	**$ 249,022**
Investing Activities:								
Construction expenditures	(26,578)	(5,673)	(2,272)	(56,181)	(194,767)	(8,156)	(10,812)	**(304,439)**
Purchase of investment securities	(26,007)	(9,518)	(6,680)	(69,221)	(128,717)	-	-	**(240,143)**
Sale and maturity of investment securities	37,651	9,304	6,555	67,226	217,247	-	-	**337,983**
Divestiture proceeds, net of expenses	324	-	-	-	-	8,521	-	**8,845**
Acquisition, net of cash	-	-	-	-	-	(3,364)	-	**(3,364)**
Other investing activities	(40,106)	-	(20,757)	(744)	(355)	34,894	28,683	**1,615**
Net cash provided by (used in) investing activities	(54,716)	(5,887)	(23,154)	(58,920)	(106,592)	31,895	17,871	**(199,503)**
Financing Activities:								
Proceeds from bank line of credit	-	-	-	-	20,000	500	-	**20,500**
Principal payments of long-term debt and bond refunding	(26,060)	(5,301)	(4,309)	(18,475)	(43,437)	(37,136)	-	**(134,718)**
Bond issuance costs	-	-	-	-	(33)	-	-	**(33)**
Contributions in aid of construction	-	-	-	7,384	7,281	385	-	**15,050**
Other financing activities	(27)	-	-	-	-	-	-	**(27)**
Net cash provided by (used in) financing activities	(26,087)	(5,301)	(4,309)	(11,091)	(16,189)	(36,251)	-	**(99,228)**
Net change in cash and cash equivalents	(20,848)	(311)	(14,886)	(9,162)	(21,760)	8,358	8,900	**(49,709)**
Cash and cash equivalents at beginning of period	96,379	11,450	40,448	53,196	54,263	27,595	16,301	**299,632**
Cash and cash equivalents at end of period	$ 75,531	$ 11,139	$ 25,562	$ 44,034	$ 32,503	$ 35,953	$ 25,201	**$ 249,923**

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**

During fiscal 2018, an $18 million contribution was made by Chilled Water to Resources for the purposes of contributing to CWU.

8. 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. Citizens reviews the asset retirement obligation annually, evaluating newly assumed costs or substantive changes in previously assumed costs to determine if cost estimate impacts are sufficiently material to warrant application of the updated estimates to the asset retirement obligation. Changes resulting from revisions to the timing or amount of the original estimate of cash flows are recognized as an increase or a decrease in the asset retirement cost to the extent applicable.

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

Asset retirement obligation at September 30, 2017	$	66,195
Accretion expense		2,491
Change in cash flows (September 2018)		(43,028)
Remediation liabilities settled		(8,924)
Asset retirement obligation at September 30, 2018	$	16,734

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

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

	September 30, 2018		September 30, 2017	
Current assets	**$**	**1,761**	$	504
Total assets	**$**	**1,761**	$	504
Equity	**$**	**(22,090)**	$	(97,535)
Retirement benefit and other long-term liabilities		**22,790**		71,635
Intercompany liability		**-**		23,151
Current liabilities		**1,061**		3,253
Total capitalization and liabilities	**$**	**1,761**	$	504

Discontinued Operations operating income was $40.1 million and operating loss was $2.6 million for the fiscal years ended September 30, 2018 and 2017, respectively. Approximately $9.5 million of cash was provided by Gas to

Discontinued Operations during fiscal year 2017, and an additional $24.7 million during fiscal year 2018, to settle a portion of the liabilities. Additional cash funding from Gas to settle liabilities may be provided to Discontinued Operations in future years.

9. RATE AND REGULATORY MATTERS

A. Regulatory Developments

Gas

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

On April 18, 2018, Citizens Gas filed a petition and supporting testimony requesting approval of an agreement entered into under Rate 30 of its IURC approved tariff. Pursuant to the agreement, Citizens Gas would provide gas transportation service to an electric generation facility owned by Indianapolis Power & Light Company at a negotiated rate. On June 20, 2018, the Office of Utility Consumer Counselor (OUCC) filed testimony arguing the agreement did not meet certain requirements of Rate 30 and recommending disapproval of the agreement. On July 11, 2018, Citizens Gas filed rebuttal testimony addressing the OUCC's arguments and explaining why the agreement meets the requirements of Rate 30. Based on discussions with the OUCC, Citizens Gas currently plans to amend its petition and seek approval of the contract as a general special contract that is not subject to the requirements of Rate 30.

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

Citizens Thermal Steam

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

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

Water

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

Wastewater

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

In September 2015, CWA filed a petition with the IURC requesting, among other things, a two-step increase in base rate revenues. On March 8, 2016, the parties filed a settlement agreement with the IURC reflecting a two-step increase of $47.8 million for the first step and of $13.5 million for the second step. On July 18, 2016, the IURC issued an Order (the 2016 Wastewater Order) authorizing a step 1 rate increase amounting to $47.7 million of additional revenue or 21.5% and a step 2 rate increase amounting to $13.5 million of additional revenue or 5.0%. Recovery of debt service on all outstanding debt of the Wastewater System including the Series 2016 A, B, and C bonds, respectively, was included in the step 1 increase and debt service on the Series 2017A bonds was included in the step 2 increase. 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 (the “SIA statute”). The purpose of the SIA statute is to facilitate an eligible utility’s recovery of revenues sufficient to plan for and invest in necessary infrastructure based on the revenue requirement authorized in the utility’s most recent rate case. CWA proposed adjustments to its non-industrial rates designed to recover a System Integrity Adjustment of $6.1 million, based on a comparison of authorized revenues from CWA’s most recent rate case and actual revenues for the 12 months ending July 31, 2017. CWA recorded the $6.1 million System Integrity Adjustment in operating revenue along with a corresponding regulatory asset representing the amount to be recovered from its non-industrial customers. On December 28, 2017, the IURC issued an order finding that CWA’s proposed System Integrity Adjustment was properly calculated and approving it for implementation. The new rates implementing the System Integrity Adjustment became effective January 1, 2018. Pursuant to the SIA statute, on September 17, 2018, CWA filed a petition requesting approval to change its adjustment amount and beginning January 1, 2019, recover a System Integrity Adjustment of approximately $9.9 million based on a comparison of authorized revenues from CWA’s most recent rate case and actual revenues for the 12 months ending July 2018. On October 17, 2018, the OUCC filed testimony arguing that CWA’s proposed change to its adjustment amount was calculated incorrectly. The OUCC proposed a change to the adjustment amount that would result in a System Integrity Adjustment of approximately $4.6 million. CWA filed rebuttal testimony on November 7, 2018, addressing the OUCC’s arguments and explaining why CWA’s proposed change to its System Integrity Adjustment is calculated correctly. A hearing before the IURC was held on November 26, 2018. CWA anticipates the IURC will issue an order in December 2018.

On October 12, 2018, CWA filed a petition with the IURC requesting, among other things, a three-step increase in base rate revenues. The step one increase, which CWA anticipates would take effect in August 2019, would increase base rate revenues by $39.5 million. The step two increase, which CWA anticipates would take effect in August 2020, would increase base rate revenues by another $14.7 million. The step three increase, which CWA anticipates would take effect in August 2021, would increase base rate revenues by another $11.3 million. On November 28, 2018, the IURC issued a prehearing conference order establishing a procedural schedule for the case. Under that schedule, the OUCC and intervenors will file testimony on or before January 25, 2019 and CWA will file rebuttal testimony on or before February 21, 2019. A hearing is scheduled for March 18 – 21, 2019.

<u>Resources - Westfield Gas</u>

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

Westfield Gas filed a base rate case petition on December 30, 2015. On June 17, 2016, Westfield Gas filed its case in chief testimony in support of a proposed increase to total revenues as well as approval to extend its energy efficiency program portfolio and to continue its decoupling mechanism. On April 26, 2017, the IURC issued an order approving a settlement agreement entered into by Westfield Gas and the OUCC without any material modifications. The IURC Order authorized 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 approved a continuation of Westfield Gas’s energy efficiency program portfolio and decoupling mechanism through December 31, 2019.

<u>Resources - Westfield Water</u>

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

On June 4 and 5, 2018, Westfield Water filed a petition and supporting testimony requesting approval to issue long-term debt securities in an aggregate amount not to exceed $20 million and incur up to $5 million in aggregate principal amount of debt in the form of a revolving credit facility. Westfield Water would use the proceeds from the long-term debt issuance to refinance existing long-term debt, pay off the amount borrowed under an existing revolving credit facility and fund a portion of the utility’s ongoing capital needs. Any proceeds from the new revolving credit facility will be used for internal working capital purposes. On August 15 and September 12, 2018 the OUCC filed testimony recommending approval of the petition. On November 21, 2018, the IURC issued an order granting the relief requested in Westfield Water’s petition.

<u>Resources – Westfield Wastewater</u>

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

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

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

On June 4 and 5, 2018, Westfield Wastewater filed a petition and supporting testimony requesting approval to issue long-term debt securities in an aggregate amount not to exceed $25 million and incur up to $5 million in aggregate principal amount of debt in the form of a revolving credit facility. Westfield Wastewater would use the proceeds from the long-term debt issuance to refinance existing long-term debt, pay off the amount borrowed under an existing revolving credit facility and fund a portion of the utility's ongoing capital needs. Any proceeds from the new revolving credit facility will be used for internal working capital purposes. On August 15 and September 12, 2018 the OUCC filed testimony recommending approval of the petition. On November 21, 2018, the IURC issued an order granting the relief requested in Westfield Wastewater's petition.

<u>Joint Depreciation Case</u>

On January 12, 2018, Citizens filed a depreciation case requesting approval to implement a decrease in depreciation accrual rates when compared to current depreciation rates for Gas, Citizens Thermal Steam, Water, Wastewater, and the Westfield utilities owned by Resources. On June 22, 2018, the OUCC filed testimony proposing certain adjustments to the depreciation study filed by Citizens, which would result in overall lower depreciation expense than the rates proposed by Citizens. The OUCC also recommended that each Citizens utility not be permitted to implement updated depreciation rates until an order in its next base rate case is issued. On July 13, 2018, Citizens filed rebuttal testimony arguing that the OUCC's proposed adjustments to Citizens' depreciation study should be rejected. Citizens' rebuttal testimony also supports its position that each utility should be permitted to implement revised depreciation rates outside a base rate case. On September 10, 2018, Citizens and the OUCC submitted a settlement agreement and supporting testimony. In the settlement agreement, Citizens and the OUCC agreed to certain adjustments to the depreciation study filed by Citizens, which would result in overall lower depreciation expense than the rates proposed by Citizens but higher than the depreciation rates proposed by the OUCC. Additionally, under the settlement agreement, neither Citizens Gas of Westfield, Citizens Water of Westfield or Citizens Wastewater of Westfield will implement the change in depreciation accrual rates applicable to it approved by the Commission in this proceeding prior to the approval of new basic rates and charges in each utility's next base rate case. A hearing before the IURC was held October 24, 2018. Citizens anticipates the IURC will issue an order on the petition during the first quarter of fiscal year 2019.

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, 2018 and 2017 (in thousands):

	2018	2017	Recovery Period	Statement of Financial Position Location
Deferred Acquisition Transaction Costs	**$ 7,529**	$ 8,131	25 - 26 years	Other deferred charges
System Integrity Adjustment - Wastewater	**12,119**	6,140	1 - 15 months	Other deferred charges
Decoupled Sales Component	**2,053**	2,332	1 - 15 months	Other deferred charges
Deferred Regulatory Proceeding Costs	**1,330**	1,692	1 - 3 years	Other deferred charges
Hedging Transaction Costs	**-**	187	1 - 13 months	Other current assets
Deferred Fuel Tracking Adjustments	**1,003**	3,514	1 - 18 months	Other current assets
Total Regulatory Assets	**$ 24,034**	$ 21,996		

Regulatory liabilities were comprised of the following at September 30, 2018 and 2017 (in thousands):

	2018	2017	Refund Period	Statement of Financial Position Location
Contributions in Aid of Construction	**$ 235,057**	$ 203,770	40 - 50 years	Contributions in aid of construction
Deferred Water Rights	**349**	440	6 - 7 years	Other long-term liabilities
Hedging Transaction Costs	**35**	-	1 - 13 months	Other current liabilities
Deferred Fuel Tracking Adjustments	**4,069**	3,760	1 - 18 months	Other current liabilities
Other	**406**	372	Various	Accounts payable and accrued expenses
Total Regulatory Liabilities	**$ 239,916**	$ 208,342		

10. COMMITMENTS AND CONTINGENCIES

A. Environmental Commitments and Contingencies

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

<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 $7.8 million and $8.4 million at September 30, 2018 and September 30, 2017, respectively. Due to a number of uncertainties, including uncertainty of timing, the scope of remediation, future technology, regulatory changes, and other factors, the ultimate remediation costs may exceed the amounts estimated.

<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 of Indianapolis (the City), Indiana Department of Environmental Management (IDEM), U.S. Environmental Protection Agency, and the U.S. District Court entered into a Consent Decree in 2006 that established a LTCP to address the System's combined sewer system. The plan established a 20 year schedule for the required combined sewer system and advanced wastewater treatment plant (AWTP) improvements.

Upon acquisition of the Wastewater System in August 2011, CWA Authority (the Authority) assumed the City's obligations under the order of the U.S. District Court for the Southern District of Indiana (the Court) dated December 19, 2006, among the EPA, IDEM, and the City, as amended (the Consent Decree). The Authority has a capital improvement plan to meet guidelines of the Consent Decree and the overall needs of the Wastewater System. The improvements related to the Consent Decree and LTCP have been planned and scheduled through 2025. The DigIndy program, the most significant element of the Consent Decree, is the largest sewer infrastructure project in Indianapolis' history. The Deep Rock Tunnel Connector (DRTC) is the first segment of a 250 feet deep, 28-mile underground tunnel system designed to store 250 million gallons of combined sewage during wet weather events to prevent overflows from entering area rivers and streams. The stored flows will be pumped to the Southport AWTP, which was expanded as a part of this Consent Decree. The Belmont AWTP was also expanded as part of the Consent Decree and this work was completed in 2012. On December 29, 2017, the first 10 miles of the DigIndy Tunnel system and the DRTC pump station were operational and available for use. Mining for the White River and Lower Pogues Run tunnels began in September 2016, and approximately 5.5 miles were mined through fiscal year 2018. 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.

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 $7.9 million and $9.1 million for the years ended September 30, 2018 and 2017, respectively. Future minimum lease payments under non-cancelable operating leases as of September 30, 2018 are as follows (in thousands):

2019	$ 7,838
2020	7,838
2021	4,353
2022	432
2023	432
Thereafter	-
Total minimum lease payments	$ 20,893

B. Legal Contingencies

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

11. DIVESTITURES

LNG Indy

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 “Investments, Other” 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 recognized a net gain on the sale of $3.9 million.

Citizens Resources Production (Plummer Oil Field)

On August 15, 2018, the Board of Directors of Citizens Resources approved in principle the sale of the Plummer Oil Field assets operated by Citizens Resources Production. On September 5, 2018, the divestiture was completed. Pursuant to the divestiture:

- Citizens Resources Production received net proceeds of $6.4 million and recognized a gain of $3.9 million, recorded in “(Gain)/loss on divestiture” in the Combined Statements of Operations.
- The Buyer will pay to Citizens Resources Production, at the end of a twenty-four-month period beginning on the closing date of the transaction, the amount, if any, by which West Texas Intermediate oil prices received by Buyer during the twenty-four-month period exceed amounts set forth in the purchase agreement, up to a maximum of $3.6 million. Given the inherent uncertainty of this contingent compensation arrangement, there can be no assurance as to the amount of additional proceeds, if any, which Citizens Resources Production may ultimately realize. Accordingly Citizens Resources Production is accounting for this matter as a gain contingency and will record any such gain in future periods when the contingency is resolved in accordance with ASC 450 – Contingencies.
- Gas received net proceeds of $0.3 million and did not recognize a gain or loss on the transaction.
- Gas entered into a Natural Gas Purchase Agreement with the Buyer whereby Gas agreed to purchase natural gas from points at or near the Plummer Field area at market related gas prices. Gas may terminate the agreement for any reason and at any time upon ninety days’ notice to Buyer.

12. SUBSEQUENT EVENTS

Management has considered the impact of subsequent events through December 12, 2018, the date at which these combined financial statements were issued.

Deloitte.

Deloitte & Touche LLP
111 Monument Circle
Suite 4200
Indianapolis, IN 46204-5105
USA

Tel: +1 317 464 8600
Fax: +1 317 464 8500
www.deloitte.com

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, Inc. (the "Companies"), both of which are under common ownership and common management, which comprise the combined statements of financial position as of September 30, 2018 and 2017, and the related combined statements of operations and 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, Inc. as of September 30, 2018 and 2017, 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 12, 2018