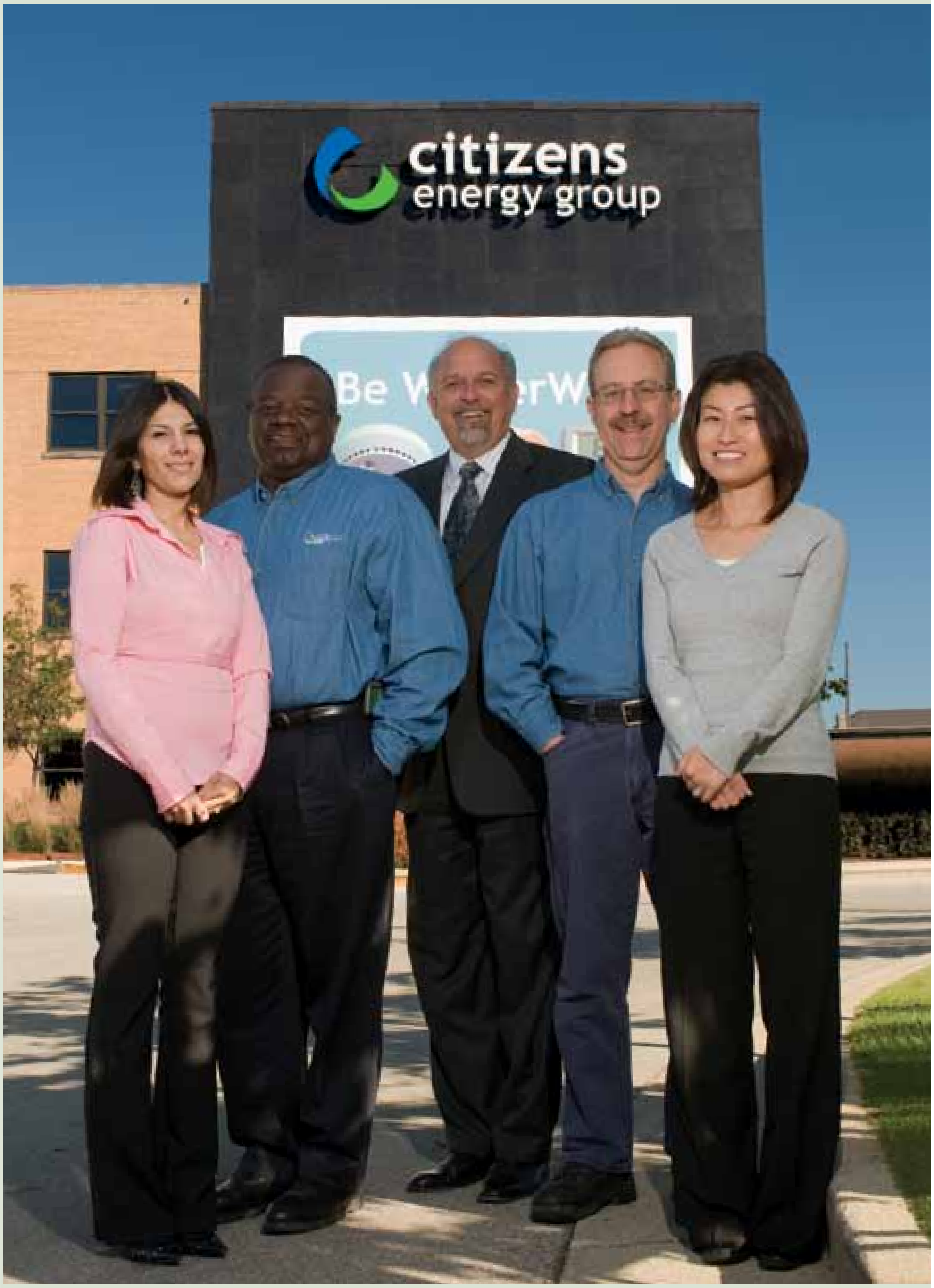
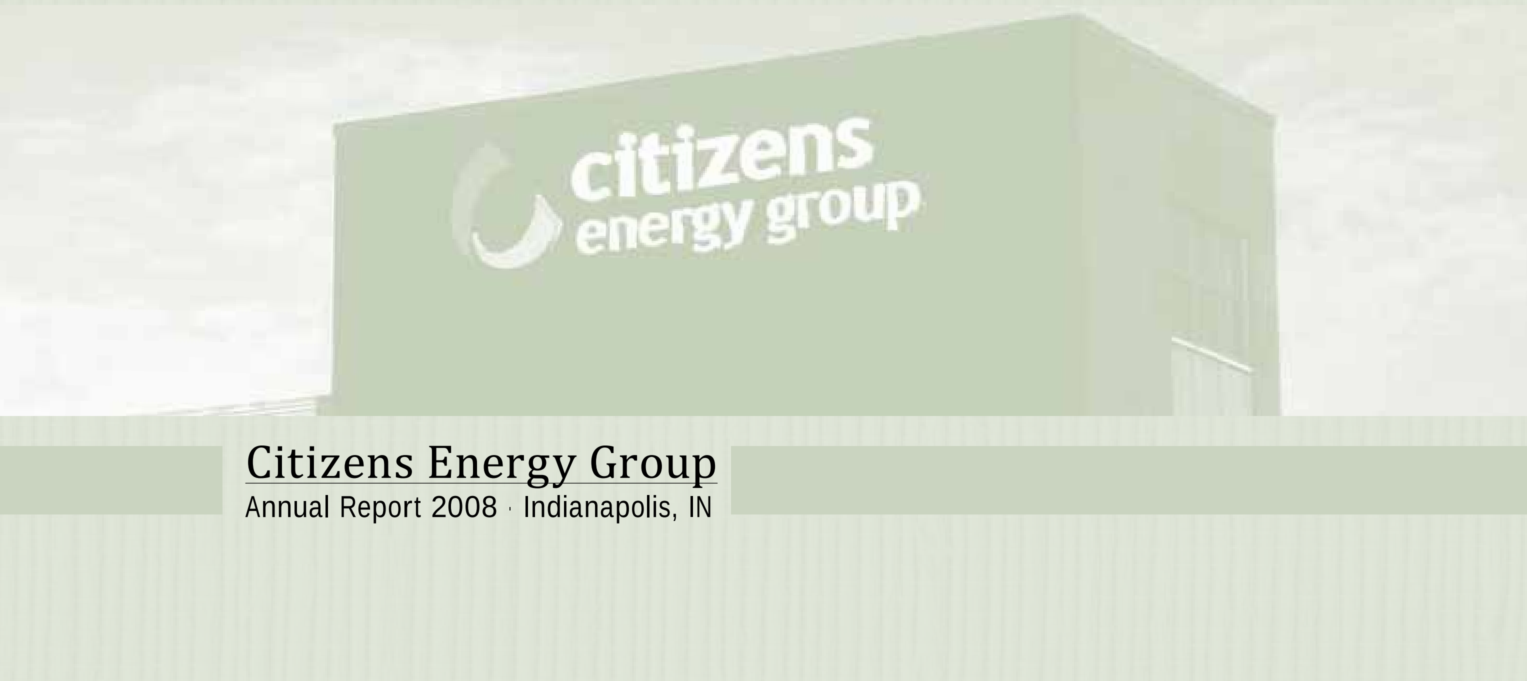
Citizens Energy Group ▪ Annual Report 2008



On the Cover: Citizens Gas President & CEO Carey Lykins, center, is flanked by Citizens employees Anna Castaneda, Gary Mann, Terry Houpt, and Angela Ros.



Citizens Energy Group

Annual Report 2008 · Indianapolis, IN

Trust Profile

Citizens Energy Group (Citizens, the Company or the Trust) operates as a Public Charitable Trust engaged in a variety of businesses including:

- **Citizens Gas** – Local distribution company (LDC) transporting natural gas to more than 264,000 customers in and around Indianapolis.
- **Citizens Thermal** – District steam heating and chilled water cooling provider serving business, industrial and institutional facilities across the Downtown Indianapolis area.
- **Citizens Oil** – Producer of oil in Greene County, Indiana.
- **Citizens Resources (Resources)** – Formerly Citizens By-Products, an unregulated, a wholly-owned subsidiary engaging and investing in various energy-related businesses.

Utilizing the Malcolm Baldrige National Quality Program since 1986 has enabled the Trust to be a regional leader for customer satisfaction while keeping rates well below industry averages.

2008 Highlights (In Thousands)	2008	2007
Operating Revenues	$ 542,443	$ 522,492
Operating Expenses	509,555	493,930
Operating Income	32,888	28,562
Other Income (Expense), Net	(2,820)	3,981
Equity in Earnings of Affiliates	25,330	32,762
Interest Charges	(30,062)	(27,595)
Income from Continuing Operations	25,336	37,710
Loss from Discontinued Operations	(5,449)	(66,290)
Net Income (Loss)	$ 19,887	$ (28,580)

Key Operating Statistics	2008	2007
Gas Delivered (MDth) – Marion County	48,668	48,698
Impact of Weather Compared to Normal	-6.03%	-8.31%
Impact of Weather Compared to Prior Year	2.49%	1.26%
Gas Customers (Average)	264,252	265,638
Gas Capital Expenditures (in Millions)	$ 28.5	$ 28.4
Avg. Residential Gas Customer Bill (% below 13 City Avg)	-23.3%	-15.0%
Steam Customers (Average)	204	208
Steam Sold (MDth)	7,144	7,261
Steam Capital Expenditures (in Millions)	$ 8.1	$ 9.3
Chilled Water Customers (Average)	46	49
Chilled Water Sold (Mton Hours)	138,882	168,977
Chilled Water Capital Expenditures (in Millions)	$ 19.2	$ 4.5
Oil Sold (Barrels)	93,548	102,252
Oil Revenue per Barrel	$ 85	$ 50
Oil Capital Expenditures (in Millions)	$ 0.5	$ 0.4
Resources and Other Capital Expenditures (in Millions)	$ 0.5	$ 1.1

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Our Vision

We will fulfill the promise of the Trust to serve our customers and communities with unparalleled excellence and integrity.

Our Mission

We provide safe, reliable energy services to our customers, while being good stewards of the environment.

We maintain the lowest possible rates with sound financial management.

We build and renew our businesses to remain competitive, add value, and create the greatest long-term benefit for our customers and communities.

Our Values

Safety

We commit to the highest standards of safety for our employees and communities.

Integrity

We conduct our business with openness and honesty.

Diversity

We treat each employee and customer with courtesy and respect.

We value the contributions of each individual in an inclusive culture.

We believe that our success depends on valuing diversity in our work force, business partners and communities.

Teamwork

We communicate, collaborate and work as a team to provide superior customer service.

We treat all stakeholders of the Trust as partners.

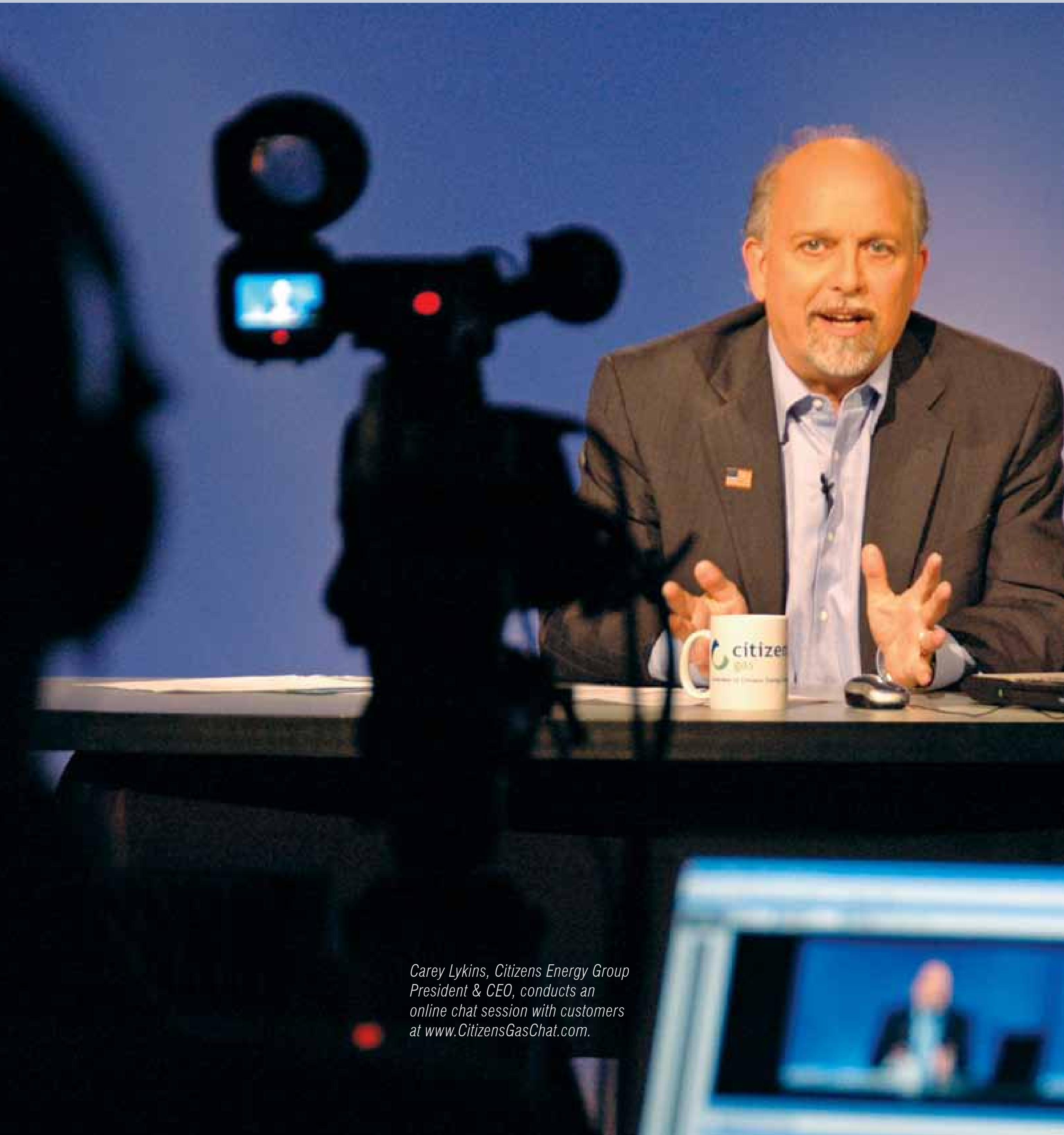
We focus on the success of the whole Trust.

Quality

We continuously improve our products, services and ourselves.

We foster an environment where employees find meaning in their work.

We rigorously measure our performance.



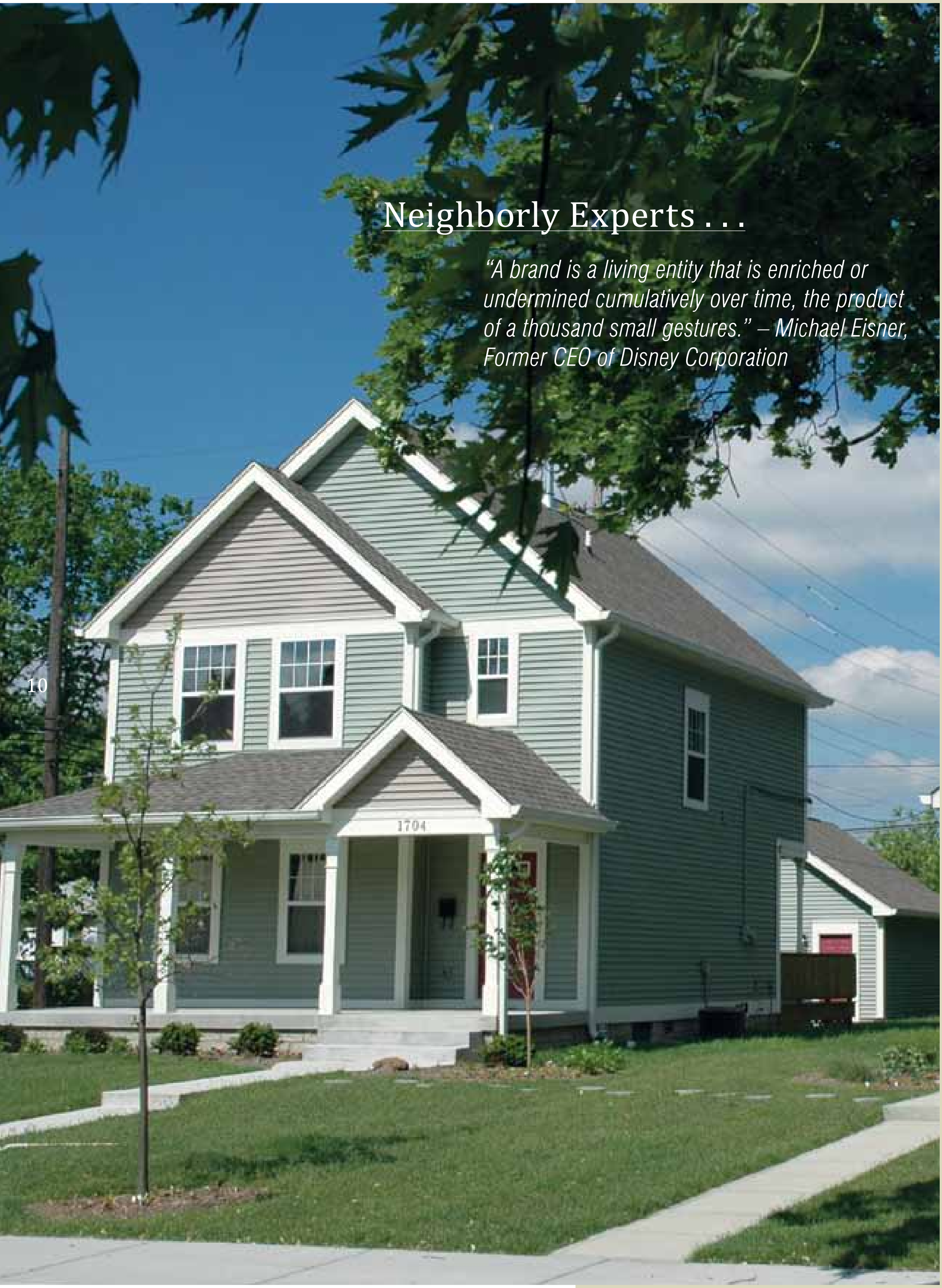
Carey Lykins, Citizens Energy Group President & CEO, conducts an online chat session with customers at www.CitizensGasChat.com.

Letter to Citizens

Annual Report 2008

Neighborly Experts . . .

"A brand is a living entity that is enriched or undermined cumulatively over time, the product of a thousand small gestures." – Michael Eisner, Former CEO of Disney Corporation



Carey Lykins
President & CEO
Citizens Energy Group

Dear Fellow Citizens:

During the past 121 years, thousands of small gestures by Citizens employees have built a brand symbolizing unrivaled passion for service to customers and the community. This was the primary message derived from a year-long brand audit process that has resulted in our new Citizens Energy Group corporate identity and our updated “Citizens” brand.

We embarked on the brand audit process because of fundamental structural and strategic changes in our company over the past several years. Structural changes include exiting the coke manufacturing business in 2007, the acquisition of our growing steam and chilled water business in 2000, and the broadening of our energy business model to include facilities management. Our brand audit also was rooted in recent decisions to refocus our strategies on helping customers conserve energy, which improves customer satisfaction while benefiting the environment.

Auditing our brand started with reexamining the core principles that have guided the Public Charitable Trust for the past 12 decades – our vision, mission and values. Our new vision, which pledges to serve customer and communities with “unparalleled excellence and integrity,” is meant to inspire our employees and serve as the foundation for all of their actions. This vision is reinforced by our updated mission and values that put even greater emphasis on integrity, service excellence, environmental stewardship, diversity and safety.

Our new corporate identity and brand flowed from conversations we had with our employees, company leadership, customers and non-customers. These conversations told us that the Citizens brand is based on values like friendliness, honesty, trust and empathy. Our brand was described with words like reliability, innovation, responsiveness, value and flexibility. We discovered our brand promise was to be a good partner in providing the best value in energy services while being responsible to the environment. The essence of our brand is simply to be a “neighborly expert.”

Citizens Energy Savers

At Citizens Gas, we are focused on helping customers conserve energy and better manage their bill. The centerpiece of this effort is our new Citizens Energy Savers program, which provides a comprehensive set of tools to help customers reduce their energy usage and ultimately benefit the environment. Available at CitizensEnergySavers.com, the new

“Quality service starts with well-trained employees at every level of our organization continually striving to be responsive to customer needs while always ensuring safety and reliability.”

program offers cash rebates on high efficiency natural gas appliances, an online energy audit tool and a weatherization program that is helping hundreds of low-income families per year reduce their home energy use by nearly 40 percent.

As we increase our focus on energy conservation, we remain dedicated to providing quality customer service. Quality service starts with well-trained employees at every level of our organization continually striving to be responsive to customer needs while always ensuring safety and reliability. Once again we are proud of our record for service as Citizens Gas was again ranked among the top five gas utilities in the Midwest by an annual customer survey conducted by J.D. Power & Associates.

In these uncertain economic times with rising costs for a variety of household necessities, we are more mindful than ever of the need to keep our gas service as affordable as possible. Effective gas purchasing decisions like our prepaid gas program and investments like Heartland Gas Pipeline are saving our customers millions of dollars each year. At the same time, this past year Citizens provided more than $3 million in direct financial assistance to about 24,000 customers who were having trouble paying their bills. We also worked with partners to ensure another $5 million in energy assistance was directed to our customers in need.

Stand Up and Cheer

When more than 63,000 Colts fans packed the new Lucas Oil Stadium this past August, they were kept cool by chilled water from Citizens Thermal. Now the fans are being kept warm by steam from Citizens Thermal. Meanwhile, Citizens Thermal is providing thousands of students a comfortable environment year-round at the new Campus Center, now the centerpiece of the Indiana University-Purdue University Indianapolis (IUPUI) campus.

These are just two examples of the growing number of commercial, industrial and institutional facilities that receive efficient steam and chilled water services from Citizens Thermal. Relying on centralized heating and cooling services from Citizens, allows customers to focus on their particular mission, while avoiding costs for expensive energy equipment and the personnel to operate and maintain it. More efficient, centralized heating and cooling from Citizens Thermal also benefits the environment.

Chilled water continues to be the fastest growing Citizens business. This year alone we are spending about $14 million to expand our chilled water systems, including additions to our West Street and Illinois Street chilled water plants.

Amidst this growth, Citizens Thermal achieved 97 percent overall satisfaction in its annual customer survey, a new record.

Leveraging the facilities management expertise within Citizens Thermal, we are working with partner BHMM Energy Services to provide hot and chilled water to heat and cool the spectacular new Midfield Terminal at Indianapolis International Airport. Citizens is currently pursuing similar facilities management partnerships that can efficiently meet energy and utility needs from a centralized source.

Investing in Our Community

While Citizens focuses on providing clean, affordable energy services, we continue working hard to make our community a better place to live. Our Community Investment Program provides philanthropic support for a wide range of community organizations and supports neighborhood and economic development projects that are revitalizing parts of our city.

Working with community partners, Citizens currently has invested more than $3 million in support of a variety of neighborhood revitalization and economic development projects. Success stories include the emerging Martindale on the Monon neighborhood and the new green headquarters of Keep Indianapolis Beautiful, both located on the east side of Indianapolis.

Our employees continue to be big contributors to our community, both through volunteer hours and dollars. As a United Way Pace Setter Company, our employees donated nearly $250,000 to the community campaign this year. The United Way recognized Citizens employees with a Pacesetter Award for the largest increase in leadership giving. Meanwhile, our employees donated hundreds of hours to volunteer efforts like the ReadUp Program, which is dramatically raising the reading scores of fourth and fifth graders in low-income areas of the city.

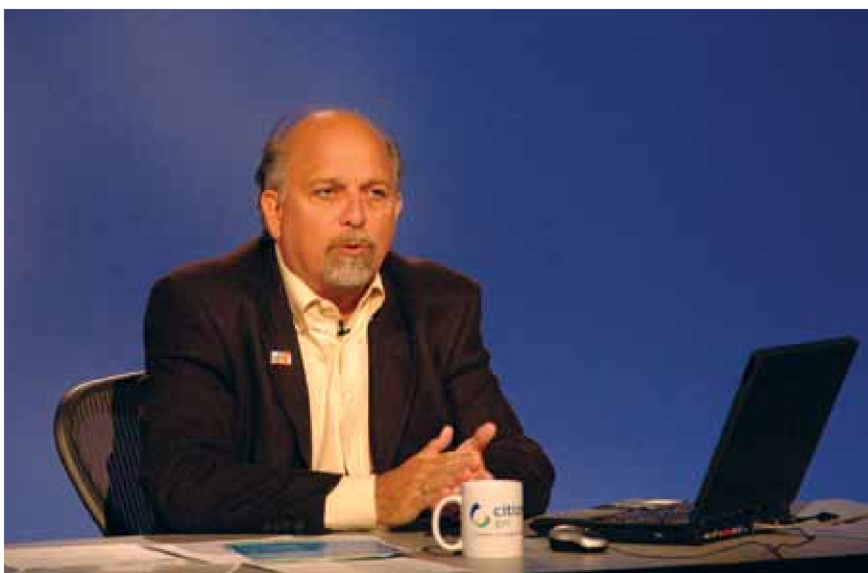
Ensuring Brand Loyalty

As we unite under a common logo, I am reminded that keeping our brand strong depends on listening to all stakeholders of the Public Charitable Trust. This fall and winter I have been having a conversation with the community through weekly online chat sessions at CitizensGasChat.com. These conversations have given me a firsthand look at just how much our nation's energy challenges are impacting the lives of our citizens. This dialogue also has confirmed for me that small gestures by dedicated employees are the key to keeping the Citizens brand a standard for service excellence for many years to come. As always, we appreciate your loyalty to the enduring Citizens brand.

Sincerely,

Carey Lykins

Carey Lykins




Carrier
citizens
Carrier

Paul Puckett, Director of Gas Distribution Operations, is featured in television ads promoting the company's new Citizens Energy Savers energy efficiency program, which features cash rebates on high efficiency natural gas appliances.

Citizens Energy Savers

Annual Report 2008

Meghan and Rao Krishnayya enjoy the high efficiency gas appliances in their new home in the revitalized Martindale on the Monon neighborhood.

Brett McClellan, Client Eligibility Services Representative, shows Ruby Edwards how to test a new smoke alarm for her home.

Citizens Energy Savers Means Peace of Mind and Lower Bills

Ruby Edwards is thankful her furnace will be working throughout this winter and that the heat it generates won't be rising through the attic of her century old home.

Ruby has this peace of mind thanks to the Citizens Energy Savers program, which is providing much needed energy renovations to hundreds of low-income homes with unusually high energy use. Working with the Indiana Housing and Community Development Association and Indianapolis Power & Light (IPL), Citizens Energy Group is providing renovations that will reduce the energy use of these homes by nearly 40 percent. For Ruby's home this mean's a new 92 percent efficient furnace, a new high efficiency water heater, and insulation for the first time in the walls and attic of her home.

"I am so thankful to everyone at the gas company for the help they have provided. This is the first winter in a long time that I won't have to worry about my furnace going out when it gets cold. I'm also looking forward to lower bills," Mrs. Edwards said.

For thousands of other home and business owners throughout the Indianapolis area, Citizens Energy Savers is providing cash rebates towards the purchase of high efficiency gas furnaces, boilers, and water heaters, as well as programmable thermostats. Rebates range from $20 for a programmable thermostat, to $200 for a high efficiency gas furnace, to $500 for a commercial gas boiler.

Citizens Energy Savers, in partnership with IPL, is helping educate young people about energy conservation through support of the Think Energy Indiana program. Think Energy is providing conservation education to 2,500 sixth grade Indianapolis Public School students this year. Included in this education is a take-home energy efficiency kit.

CitizensEnergySavers.com provides important energy management tools for consumers. The Citizens Bill Analyzer helps customers understand why their bill varies from month-to-month or year-to-year. The Citizens Home Energy Advisor is a free online energy audit tool that delivers energy and cost-saving suggestions based on a homeowner's particular energy usage patterns.

Barney Levengood, Executive Director of the Indiana Convention Center and Lucas Oil Stadium, knows when these seats are full, Citizens Thermal will deliver the comfort fans have come to expect.

Stand Up & Cheer

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Stand Up and Cheer for Citizens Thermal Comfort

On a warm September night when the Indianapolis Colts battled the Chicago Bears in their first regular season game at the new Lucas Oil Stadium, the team's 63,000 fans kept their cool despite a few bad breaks for the home team.

The fans were kept comfortable that night by clean, efficient chilled water cooling service from Citizens Thermal. Now that winter is here, fans who pack the stadium are being kept warm by steam heating service from Citizens Thermal.

"Citizens Thermal's service is reliable and their staff is absolutely wonderful to work with. Citizens Thermal also is truly a great neighbor for Lucas Oil Stadium," said Barney Levengood, Executive Director of the Indiana Convention Center and Lucas Oil Stadium.

Now the single largest building heated and cooled by Citizens Thermal, the $719 million stadium certainly has impressive energy needs. When the stadium's unique retractable roof is closed on a hot day, the 1.8 million square foot facility can require up to 9,500 tons of refrigeration. This cooling load is equivalent to about 3,000 medium sized homes. The stadium can require up to 63,000 pounds of steam per hour to keep fans warm.

To accommodate the new stadium, Citizens Thermal installed two new chillers, 1,800 feet of new chilled water lines, and almost 100 feet of new high pressure steam lines. The project also included a first of its kind condensate return line, thus eliminating the need to discharge to the sewers. Instead, the condensate is returned to Citizens for reuse, which reduces costs for the company while providing a discount to the stadium's steam bill.

Cost effective, environmentally friendly energy service from Citizens Thermal allows its customers to focus on their particular missions. Whether it's IUPUI, state government, manufacturing facilities like National Starch, expanding health care facilities, or spacious hotels, Citizens Thermal is meeting the energy needs of our growing downtown.

Todd Fuller, Manager of Chilled Water, and Bob Purdue, Director, Steam Operations, ensure reliable, efficient heating and cooling service to Lucas Oil Stadium and hundreds of other large facilities in the downtown area.

John Eddington, Director of Facility Operations for Citizens Thermal, and Del Morris, Operations Manager for BHMM Energy Services, ensure a comfortable environment year round at the Indianapolis International Airport's new Midfield Terminal, and the nearby Operations Maintenance Center.

Efficient Takeoff

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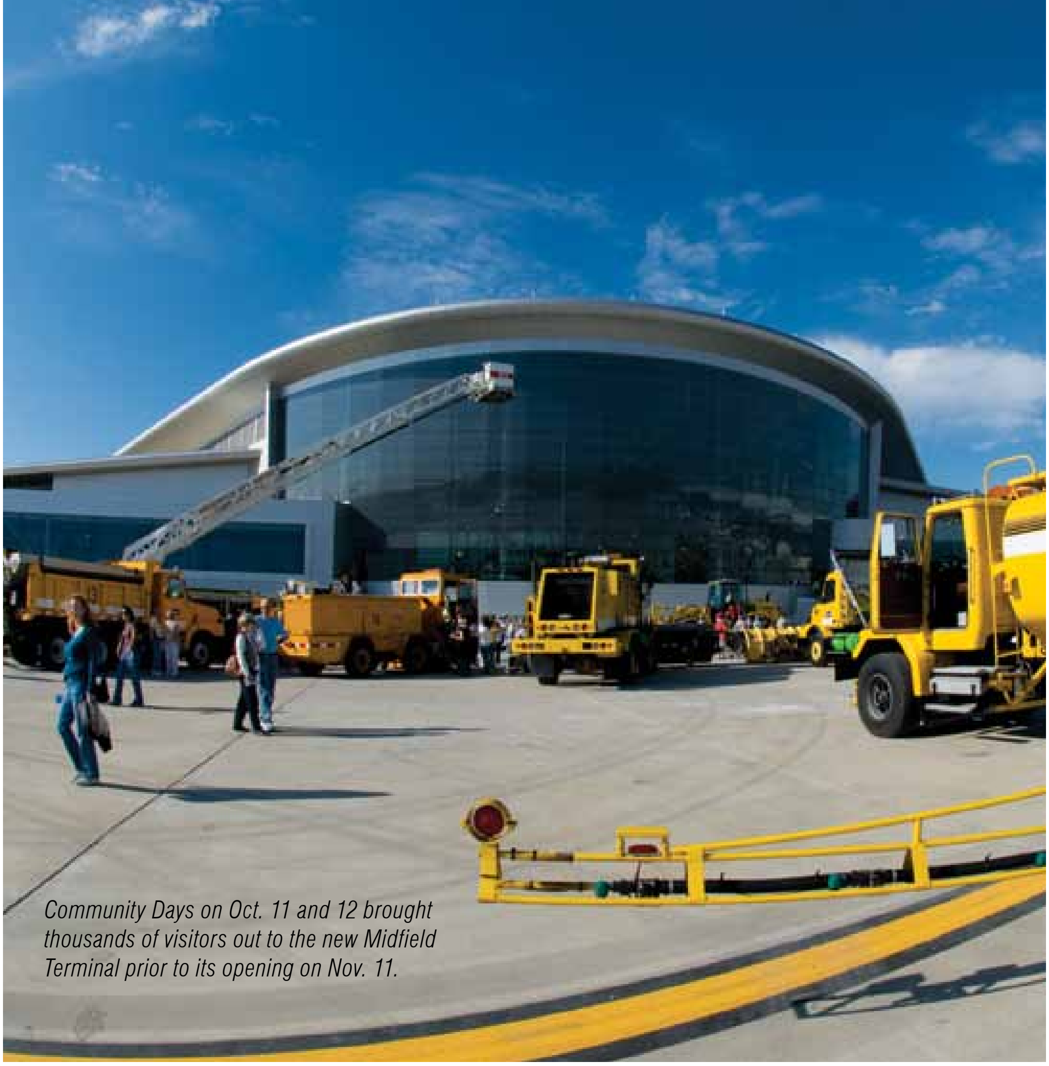

Community Days on Oct. 11 and 12 brought thousands of visitors out to the new Midfield Terminal prior to its opening on Nov. 11.

Efficient Takeoff for New Airport Terminal

With its sweeping arched windows and elegant steel columns, the new Midfield Terminal at Indianapolis International Airport is a spectacular entry point to the circle city and a model of energy efficiency.

A partnership between Citizens Thermal and BHMM Energy Services, a certified minority-owned business, is a key part of the $1.1 billion terminal's greener approach to providing air service to Indiana's capitol city. Citizens Thermal and BHMM operate the Central Energy Plant (CEP), which provides hot water heating and chilled water cooling services to the 1.2 million square-foot terminal and the 1.7 million square-foot Operations Maintenance Center.

Transporting hot and chilled water is no easy feat given that the CEP is located nearly a half-mile from the terminal. Utilizing an expanded CEP was made possible by construction of a 2,016-foot underground utility connector that passes 22 feet below one airport runway and two taxiways. The utility connector project allowed the airport to keep functioning without interruption as 5,800 feet of hot and chilled water lines were installed in the tunnel between the CEP and the new terminal.

"Besides receiving national recognition for its innovative trenchless design, the utility connector project was completed for about $3.8 million below original estimates. This project has strengthened Citizens' and BHMM's reputation for providing district energy services at similar locations in the future," said Bill Tracy, Senior Vice President, Operations for Citizens Energy Group.

District energy service from Citizens and BHMM also is contributing to the terminal's environmentally sensitive approach to operations. The CEP's boilers utilize clean-burning natural gas, which also means dramatically lower greenhouse gas emissions. District energy also is inherently more efficient than having utility plants for individual buildings.

Other green elements of the facility include radiant heating and cooling coils below the floors and air handlers that maintain comfort by circulating air at about 12 feet. Skylights illuminate the terminal with natural light to reduce electricity costs and tinted glass helps reduce cooling costs.

Thanks in part to Citizens and BHMM, the Midfield Terminal is on track to achieve Leadership in Energy and Environmental Design (LEED) certification from the U.S. Green Building Council – an honor reserved for buildings that promote water and energy conservation, recycling, use of renewable energy sources, and construction that minimizes impact to the environment.


KEEP INDIANAPOLIS BEAUTIFUL INC

David Forsell, President of Keep Indianapolis Beautiful, is proud of the organization's new "green" headquarters, which was made possible through a $250,000 loan and a $25,000 grant from Citizens Energy Group.

Green Headquarters

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Citizens Supporting Green Redevelopment

When Keep Indianapolis Beautiful (KIB) wanted to turn an abandoned one-story building into its new environmentally sustainable headquarters, Citizens Energy Group's Community Investment Program provided a natural partner.

With operations previously scattered at rented and borrowed office and warehouse space, KIB recently relocated to its new "green" headquarters at 1029 Fletcher Avenue just east of downtown. The redeveloped building was made possible through a $250,000 low interest loan from Citizens Energy Group. Citizens also provided a $25,000 grant to KIB, one of several grants the organization received from community donors.

"We are grateful for the support Citizens Energy Group provided to our new headquarters. Both the grant dollars, as well as the community redevelopment loan dollars, have helped take this project from simply a solution for KIB and its growth, to a solution for the entire community," said David Forsell, President of KIB.

Environmentally sustainable elements of KIB's new headquarters include:

- **Pervious parking lot** – Special pavement for the parking lot allows storm water to pass through it and seep into the ground, thus reducing runoff to storm sewers.
- **Reflective roof** – The building's white reflective roof helps reduce cooling costs in the summer.
- **Cisterns and Gardens** – KIB reduces its city water usage by directing rainwater from the building's roof to a cistern, which distributes water to one of two rain gardens on site. Rain gardens reduce runoff to the local storm sewers.
- **Appliances** – High efficiency natural gas and electric appliances reduce energy use for the facility.

Supporting environmental sustainability is nothing new for Citizens Energy Group. This past year the company joined with the Indiana Office of Energy & Defense Development to provide 55 energy efficiency and conservation grants totaling $82,500 to nonprofit and community development partners in Marion County. The funding was targeted at installing high efficiency, water heaters and high efficiency EnergyStar furnaces in newly constructed or rehabilitated low-to-moderate priced housing. The funding also supported purchase of 700 programmable thermostats for these homes.

In addition to energy efficiency grants, neighborhood redevelopment projects supported by Citizens, like Martindale on the Monon, utilize high efficiency natural gas appliances in all of their homes.

Supporting environmental sustainability through its Community Investment Program is rooted in Citizens' core values and overall goal of improving the quality of life in our community.

David Forsell chats with Jean Richcreek, Senior Vice President and Chief Administrative Officer at Citizens Energy Group, about KIB's ongoing community beautification initiatives.

Financial Report

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Management Discussion and Analysis

Forward-looking Statements

Certain matters discussed in this report, except historical information, include forward-looking statements. Although the Trust believes such statements are based on reasonable assumptions, no assurance can be given that every objective will be achieved.

Financial Highlights:

Results of Operations

The operations of the Trust include activities in five business segments: Citizens Gas, Steam, Chilled Water, Oil and Citizens Resources (Resources). While each of these business segments offers distinctive products and services to its customers and markets, all are dedicated to customer service excellence in the energy and energy service industries. Furthermore, each of these business segments contributes to the overall financial performance of the Trust and provides an element of risk mitigation due to the diversification of risk related to economic and seasonal market cycles. The former Manufacturing business segment has been reclassified to Discontinued Operations in 2007 as a result of cessation of production at the plant in July, 2007. This followed a lengthy but unsuccessful effort to find a buyer for the facility.

The Trust reported consolidated net income of $19.9 million in 2008 as compared to net loss of $(28.6) million in the prior year. Net income in 2008 was $48.5 million higher than net loss in 2007 and is summarized as follows:

($ In Millions)	2008	2007	Change
Operating Revenues:			
Utility	$500.0	$482.1	$ 17.9
Non-Utility	42.5	40.3	2.2
Total Operating Revenues	542.5	522.4	20.1
Operating Expenses:			
Cost of Goods Sold:			
Utility	339.6	338.4	1.2
Non-Utility	10.9	11.7	(.8)
Total Cost of Goods Sold	350.5	350.1	0.4
Other Operating Expenses	159.1	143.8	15.3
Total Operating Expenses	509.6	493.9	15.7
Total Operating Income	32.9	28.5	4.4
Other Income (Expense), Net	(2.8)	4.0	(6.8)
Equity in Earnings of Affiliates	25.3	32.8	(7.5)
Interest Charges	(30.1)	(27.6)	(2.5)
Income from Continuing Operations	25.3	37.7	(12.4)
Loss from Discontinued Operations	(5.4)	(66.3)	60.9
Net Income (Loss)	$ 19.9	$(28.6)	$ 48.5

For a more detailed understanding of these summarized results, see the following discussion and Note 8 of the consolidated financial statements.

Utility Operating Revenues

Utility operating revenues increased $17.9 million to $500.0 million in 2008, from $482.1 million in 2007 due to the following:

Citizens Gas – increase of $9.7 million. Total operating revenues for Citizens Gas increased to $429.0 million in 2008 versus $419.3 million in 2007, on volume sales of 48.7 million dekatherms in 2008 and 2007. Gas volumes sold remained steady despite weather being 2.5 percent colder than the prior year. Total revenue increased $7.4 million due to the implementation of a Decoupling rate mechanism in September, 2007 and by $0.3 million due to the implementation of the normal temperature adjustment mechanism (NTA) in March, 2007. The Decoupling mechanism allows the recovery of non-gas costs for certain rate classes at the level authorized notwithstanding reductions in sales volumes due to conservation and improvements in energy efficiency and the NTA mechanism weather normalizes the usage of certain gas customers during the months of October through April. Revenue further increased by $6.4 million due to higher gas cost recovery revenues in 2008 versus 2007, but was offset by $1.9 million in lower base rate and miscellaneous revenues. Another $2.5 million comparative reduction in revenues was due to weather hedge revenues recorded in 2007; Citizens Gas did not enter into a weather hedge contract in 2008.

Steam Division – increase of $7.6 million. Total operating revenues for the Steam Division increased to $65.6 million in 2008 versus $58.0 million in 2007. Although steam sales were lower (total therms sold decreased to 71.4 million in 2008 versus 72.6 million in 2007), total revenue increased $6.9 million due to the November, 2007 base rate increase, $1.1 million from increased fuel pass-through costs and $0.6 million for miscellaneous revenues, offset by a $1.0 million reduction in sales of emission credits. The increase in fuel costs was largely due to the substitution of natural gas for coke oven gas, as supplies of coke oven gas became unavailable beginning July, 2007, as a result of the cessation of production at the Manufacturing facility.

Resources; Westfield Gas – increase of $0.6 million. Total operating revenues for Westfield Gas increased to $5.4 million in 2008 versus $4.8 million in 2007. This increase is primarily related to increased sales due to colder weather than in the prior year and is also partially attributed to additional customer growth as Westfield Gas had 2,942 customers at September 30, 2008 versus 2,617 customers at September 30, 2007. Total dekatherms of gas sold in 2008 were 478.9 thousand versus 434.2 thousand in 2007.

Non-Utility Operating Revenues

Non-utility operating revenues increased $2.2 million to $42.5 million in 2008, from $40.3 million in 2007 due to the following:

Chilled Water Division – decrease of $0.7 million. Total operating revenues for the Chilled Water Division decreased to $31.3 million in 2008 versus $32.0 million in 2007. This decrease is due to reduced demand by a single large customer. Total ton hours sold decreased to 138.9 million in 2008 versus 169.0 million in 2007. Offsetting the volume sales reduction was a 3.25 percent price increase for increased recovery of variable fuel and operating costs for the current year period.

Oil Division – increase of $2.9 million. Total operating revenues in the Oil Division increased in 2008 to $8.0 million from $5.1 million in 2007 as revenue per barrel of oil sold averaged $85 per barrel in 2008 versus $50 per barrel in 2007. Offsetting the per barrel sales increase was lower production as total barrels of oil sold decreased to 93,548 in 2008 versus 102,252 in 2007.

Resources; Citizens Mechanical Services (CMS) – no change. Total operating revenues for CMS were unchanged at $3.2 million for 2008 and 2007.

Utility Cost Of Goods Sold

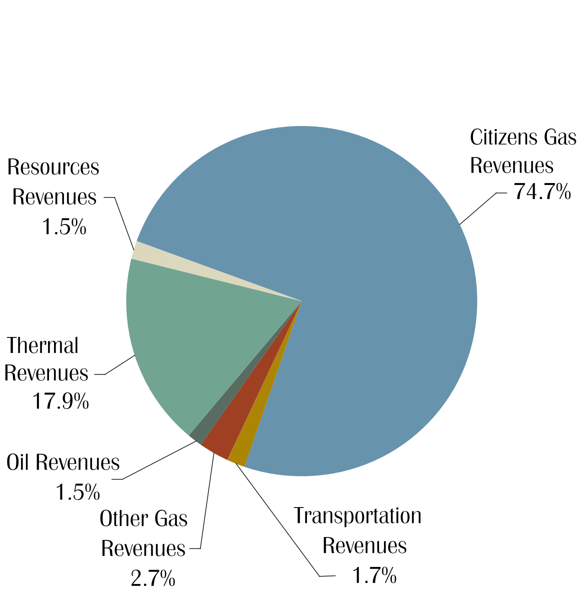
Utility cost of goods sold increased $1.2 million to $339.6 million in 2008, from $338.4 million in 2007 due to the following:

Citizens Gas - decrease of $0.2 million. Total gas costs for Citizens Gas decreased $0.2 million to $299.6 million in 2008 versus $299.8 million in 2007. This decrease was the net result of offsetting factors. Wholesale gas prices and related storage costs were lower during high volume months of fall and winter, while gas prices spiked in the low volume months of the spring and summer. The average annual WACOG (weighted average cost of gas) increased 24.7 percent, from $7.49 per dekatherm in 2007 to $9.33 per dekatherm in 2008, however the income statement impact of this was offset by Gas Cost Adjustment reconciliations moving from a $12.3 million over-recovery at September 30, 2007 to a $0.1 million over-recovery at September 30, 2008. Such net change resulted in a $12.2 million credit to gas cost expense. The net result of all the aforementioned was virtually no change in total gas cost expense compared to prior year. Pricing for natural gas is driven by market factors.

Steam Division – increase of $1.0 million. Total cost of goods sold for the Steam Division increased $1.0 million to $36.0 million in 2008 versus $35.0 million in 2007. This increase was due primarily to increases in coal, oil and steam costs as well as natural gas costs related to the substitution of natural gas for coke oven gas in the fuel mix. No coke oven gas was available in 2008 due to the wind-down and cessation of production of the Manufacturing Division in July, 2007.

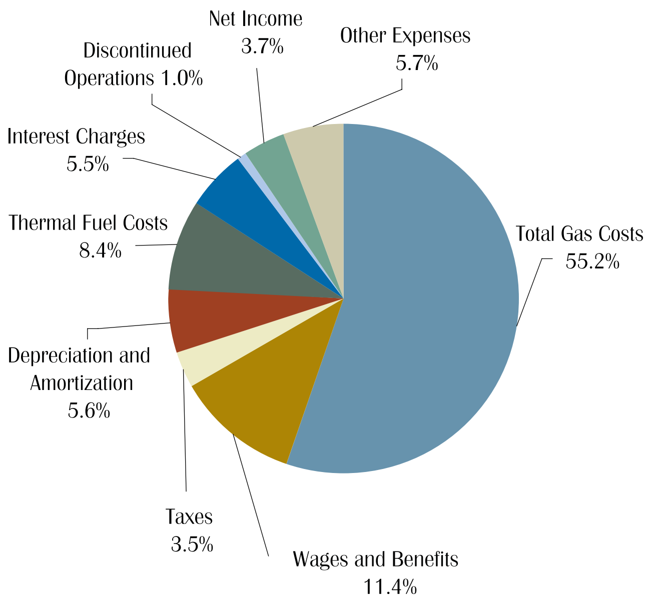
Source of 2008 Revenue Dollars

2008 Revenues = $ 542 Million



Distribution of 2008 Revenue Dollars

2008 Distributions = $ 542 Million



Resources; Westfield Gas – increase of $0.4 million. Total cost of goods sold for Westfield Gas increased $0.4 million to $4.0 million in 2008 versus $3.6 million in 2007. Westfield Gas had higher sales due to weather and customer growth, offset by lower average commodity prices.

Non-Utility Cost Of Goods Sold

Non-utility cost of goods sold decreased $0.8 million to $10.9 million in 2008, from $11.7 million in 2007 due to the following:

Chilled Water Division – decrease of $0.9 million. Total cost of goods sold for the Chilled Water Division decreased to $9.6 million in 2008 versus $10.5 million in 2007. This decrease was primarily due to reduced demand by a single large customer.

Resources; Citizens Mechanical Services (CMS) – increase of $0.1 million. Total cost of goods sold for CMS increased to $1.3 million in 2008 versus $1.2 million in 2007. This increase of $0.1 million is largely attributed to increased contracting costs.

Other Operating Expenses

Other operating expenses increased $15.3 million to $159.1 million in 2008, from $143.8 million in 2007 due to the following:

Other Operations and Maintenance (O&M) – increase of $0.9 million. Other O&M by business segment for 2008 versus 2007 is as follows (in thousands):

	2008	2007	Change
Citizens Gas	$ 37,818	$39,529	$ (1,711)
Steam	14,189	12,199	1,990
Chilled Water	3,844	3,652	192
Oil	1,154	1,031	123
Resources	516	195	321
Total Other O&M	$ 57,521	$56,606	$ 915

The change in O&M is primarily due to increases in Steam plant maintenance expenses of $1.2 million, labor and related costs of $0.5 million, customer incentives of $0.2 million and other maintenance expenses of $0.5 million, offset by decreases in benefit loadings of $1.5 million.

General and Administrative (G&A) – increase of $8.1 million. G&A by business segment for 2008 versus 2007 is as follows (in thousands):

	2008	2007	Change
Citizens Gas	$41,472	$35,385	$ 6,087
Steam	6,427	5,986	441
Chilled Water	3,240	2,260	980
Oil	203	93	110
Resources	4,411	3,928	483
Total G&A	$55,753	$47,652	$ 8,101

Increases include $0.8 million in pension costs associated with an early retirement offering to certain eligible G&A employees, $0.6 million in supplemental retirement benefit adjustments, a $2.1 million increase in Citizens Gas' uncollectible provision and the non-recurrence in 2008 of a one-time expense credit adjustment of $4.1 million to incentive plan expenses in the 2007 period affecting all divisions.

Depreciation and Amortization – increase of $5.5 million. Depreciation and Amortization by business segment for 2008 versus 2007 as follows (in thousands):

	2008	2007	Change
Citizens Gas	$20,440	$ 19,516	$ 924
Steam	3,785	2,221	1,564
Chilled Water	4,814	1,808	3,006
Oil	408	475	(67)
Resources	810	802	8
Total Depreciation & Amortization	$30,257	$ 24,822	$ 5,435

Steam increased by $1.0 million and Chilled Water increased by $2.8 million due to increased customer contract amortization compared to the 2007 period (See Note 1.M. of the consolidated financial statements for further details). The remaining net increase in depreciation and amortization of $1.7 million or 6.6 percent in 2008 versus 2007 is due to capital additions.

Taxes – increase of $0.8 million. Taxes by business segment for 2008 versus 2007 are as follows (in thousands):

	2008	2007	Change
Citizens Gas	$11,841	$11,298	$ 543
Steam	1,416	1,245	171
Chilled Water	1,589	1,572	17
Oil	140	91	49
Resources	552	498	54
Total Taxes	$15,538	$14,704	$ 834

The change in taxes is primarily due to increases of $0.3 million in property taxes, $0.3 million in Indiana Utility Receipts tax and $0.2 million in payroll taxes.

Other Income (Expense), Net

Other Income (Expense), Net – decrease of $6.8 million. Interest income decreased $2.2 million or 33.6 percent in 2008 versus 2007 due to the combination of decreased cash balances and lower interest rates. Interest income was $4.3 million in 2008 compared with $6.5 million in 2007. Other, net expense increased $(4.6) million to $(7.1) million in 2008 from $(2.5) million in 2007. This was primarily driven by differences in mark-to-market adjustments on Citizens Gas' derivatives ($4.7 million) and higher community investment and brand advertising expenses ($0.3 million).

Equity In Earnings Of Affiliates

Equity in Earnings of Affiliates was $25.3 million in 2008 versus $32.8 million in 2007, a decrease of $7.5 million or 22.9 percent. This was due primarily to lower margins and higher fixed costs related to the optimization services of ProLiance Energy, LLC (ProLiance), the gas marketing affiliate of Resources.

Interest Charges

Interest charges increased $2.5 million to $30.1 million in 2008 from $27.6 million in 2007 primarily due to higher interest rates on variable rate revenue bonds and the net effect of refunding these bonds in 2008. For additional information on the bond refunding see the Liquidity discussion and Note 4 of the consolidated financial statements.

Discontinued Operations

Loss from Discontinued Operations (Manufacturing Division) – decrease of $60.9 million. The Manufacturing Division ceased production on July 13, 2007, due to long standing economic hardships and financial losses in recent years. As a result, the net losses for fiscal years ended September 30, 2008 and 2007 are reported in Discontinued Operations. Since July 13, 2007, all revenue and expenses incurred at the plant have been related to plant decommissioning and demolition preparation costs and liquidation of salable products. The Company expects to conduct demolition and environmental remediation activities at the plant site for several years.

The $60.9 million improvement in Loss from Discontinued Operations is primarily due to non-recurring events experienced during fiscal year 2007. A $35.8 million impairment write-down of plant assets was recorded in March, 2007. The operating loss in 2007, excluding the aforementioned impairment write-down, was $30.5 million. Fiscal year 2008 includes proceeds of $10.3 million for coal and coke inventory liquidation, net remediation insurance recoveries and litigation settlements. Decommissioning expenses and other administrative expenses were $15.7 million. See Note 9 of the consolidated financial statements for additional information on the discontinuation of the Manufacturing Division.

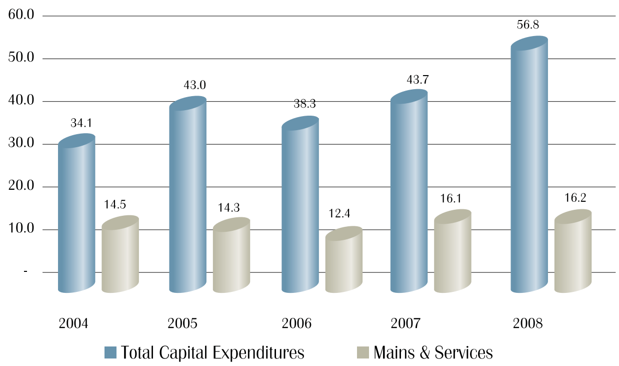
Liquidity And Capital Resources

The Trust utilizes long-term debt, short-term debt and internally generated funds to meet capital investment and working capital needs. In 2008, capital expenditures increased to $56.8 million from $43.7 million in 2007. This increase of $13.1 million is summarized as follows (in millions):

	2008	2007	Change
Citizens Gas	$28.5	$28.4	$ 0.1
Steam	8.1	9.3	(1.2)
Chilled Water	19.2	4.5	14.7
Oil	0.5	0.4	0.1
Resources and Other	0.5	1.1	(0.6)
Total Capital Expenditures	$56.8	$43.7	$13.1

Capital Expenditures 2004-2008

(In Millions)



Citizens Gas continued to invest heavily in mains and services to maintain its commitment to modernization of its underground gas distribution system. In addition to the investment in Citizens Gas, the Trust continued to invest in growth and environmental compliance at Citizens Thermal.

The Trust has approximately $479.6 million of long-term debt outstanding, net of current maturities and unamortized bond premium and discount, which has been issued primarily to fund capital investment needs of the Gas Utility Distribution System and the acquisition of Citizens Thermal. In addition to the long-term debt, the Trust has $50 million in commercial paper outstanding, which was used to fund capital investment for Citizens Gas. The seasonal nature of Citizens Gas creates short-term working capital needs to fund gas inventory purchases and accounts receivable during the heating season. The Trust has $125 million of working capital lines of credit available to fund such needs, an increase of $75 million from fiscal year 2007. As of September 30, 2008, $107 million of such lines of credit remained available.

The Gas Utility Distribution System (GUDS) issued $102,375,000 of Series 2001A auction rate notes in May, 2001 and $76,070,000 of Series 2003A auction rate notes in June, 2003 to refund prior debt obligations. In addition, the Thermal Energy System (Thermal System) issued $48,775,000 of Series 2001B auction rate notes in January, 2001 to finance a portion of the acquisition of the Thermal System.

Unfortunately, credit concerns regarding the bond insurers, including the insurer of Citizens' auction rate debt, began to emerge in late 2007 due to the theretofore unknown credit exposure that insurers had to sub-prime mortgage portfolios. As a result, several of the primary bond insurers were downgraded from AAA ratings in early 2008.

As a result of bond insurer downgrades, investor participation in the auction rate market dropped precipitously and auctions across the country began to fail. Citizens experienced failed auctions on its auction rate notes beginning in February, 2008. Failed auctions do not create a liquidity event for Citizens, however the interest rate paid on the debt is established by a maximum rate formula. During the period of time that Citizens experienced failed auctions, rates reset at a weighted average of 6.08 percent.

Because of these events, Citizens determined that it should refund the Series 2001 and 2003A GUDS and the Series 2001B Citizens Thermal auction rate notes with fixed rate bonds and executed three revenue refunding bond issues in 2008.

On April 10, 2008, Citizens issued the following revenue refunding bonds:

1. City of Indianapolis, Indiana, Thermal Energy System, (CTE) First Lien Multi-Mode Revenue Refunding Bonds, Series 2008, due 2021 to 2025 - $50,070,000. This series was issued at a discount of $302,437, with a coupon rate of 5 percent. The proceeds of this series were used to refund the City's Thermal Energy System Multi-Mode Revenue Bonds, Series 2001B, in the aggregate principal amount of $48,775,000 as well as pay the transaction costs of the refunding.

2. City of Indianapolis, Indiana, Gas Utility Distribution System, Second Lien Multi-Mode Revenue Refunding Bonds, Series 2008A&B, due 2025 to 2030 - $111,705,000. This series was issued at a premium of $2,496,336. Fifty percent of the new debt was issued at a coupon rate of 5 percent, with the rate to reset in five years. The other half of the new debt was issued as fixed rate serial bonds with a weighted average coupon rate of 5.25 percent. The proceeds of this series were used to refund the Gas Utility Distribution System Second Lien Multi-Mode Revenue Refunding Bonds, Series 2001 in the aggregate principal amount of $102,375,000; and $10,000,000 of interim indebtedness as well as pay the transaction costs of the refunding.

On June 10, 2008, Citizens issued the following revenue refunding bonds:

3. City of Indianapolis, Indiana, Gas Utility Distribution System, Second Lien Multi-Mode Revenue Refunding Bonds, Series 2008C, due to 2021 - $69,795,000. This series was issued at a premium of $5,983,666. The new debt was issued as fixed rate serial bonds ranging from a coupon rate of 4 percent for bonds maturing in 2009, increasing to 5.25 percent for bonds maturing in 2021. The proceeds of this series were used to refund the Gas Utility Distribution System Second Lien Multi-Mode Revenue Refunding Bonds, Series 2003A in the aggregate principal amount of $66,755,000; pay $7,925,000 in settlement of the related interest rate swap as well as pay the transaction costs of the refunding.

The Trust has certain trust indentures associated with the Gas Utility System (GUS) and Gas Utility Distribution System that specify in the event that debt service requirements cannot be met, the Trust shall take any appropriate action under the law and within its power, to generate income and revenues of the GUS and GUDS in the amounts required to satisfy the requirements for later fiscal years. These actions include, but are not limited to, the filing of a proceeding seeking additional revenues or other relief before the Indiana Utility Regulatory Commission (IURC). At September 30, 2008, the Trust was in compliance with all debt covenants.

Regulatory Developments

On March 18, 2008, the Trust filed a petition with the IURC requesting approval of a new schedule of rates and charges to increase its gas utility operating revenues. On September 17, 2008, the IURC issued an Order approving a settlement agreement between the Trust, the Indiana Office of Utility Consumer Counselor and a group of industrial customers that intervened in the IURC proceeding. The IURC Order authorized the Trust to adjust its rates and charges in order to increase its gas utility operating revenues by $16.7 million or 3.7 percent. In addition to the rate increase, the IURC Order authorized the Trust to recover the gas cost component of its net write-offs in its quarterly gas cost adjustment filings, approved new depreciation accrual rates and approved other changes to the Trust's general terms and conditions for gas utility service, including a change to the test used to determine when deposits are required for extension of facilities. The Trust implemented the IURC-approved rate increase and the approved changes to its general terms and conditions for gas utility service effective September 19, 2008.

On October 19, 2006, the IURC approved an annual $14.7 million gas base rate increase. On November 8, 2006, the gas utility filed a request for rehearing and partial reconsideration of certain aspects of the IURC's October 19, 2006 rate order. On November 17, 2006, the Trust filed a notice of appeal with the Indiana Court of Appeals preserving its ability to appeal certain aspects of the IURC's final order in that case. Subsequently, a settlement agreement between the Trust, the Indiana Office of the Utility Consumer Counselor, and the Industrial Intervener group was reached. The IURC approved that settlement agreement on August 29, 2007, which, among other things, authorized the Trust to implement a decoupling mechanism that will ensure the Trust's gross margin more closely tracks the Trust's authorized margin requirement approved by the IURC. As a result of the IURC's approval of the settlement agreement, the petitions for rehearing and appeal of the rate case order were dismissed.

On February 28, 2007, the IURC approved a normal temperature adjustment (NTA) mechanism that weather normalizes the usage of certain gas customers during the months of October through April. The NTA was implemented with April, 2007 bills. Together, the NTA and the decoupling mechanism provide the decoupled rate design needed to provide for the long term needs of the gas distribution system and its customers.

On December 29, 2006, Citizens Thermal filed a petition with the IURC requesting approval of a new schedule of rates and charges to increase its steam utility operating revenues. On October 30, 2007 the IURC approved a settlement agreement between the Trust, the Indiana Office of the Utility Consumer Counselor, and the Industrial Intervener group, which, among other things, authorized new rates reflecting an annual $6.5 million phase 1 increase in operating revenues effective November 1, 2007, and an annual $3.1 million phase 2 increase effective December 1, 2008, to recover increased costs that will be incurred under a new steam purchase agreement effective on that date and transition from an annual to a quarterly adjustment to its fuel cost recovery mechanism. As a result of the settlement agreement, the Steam Division recognized previously deferred emissions credit revenue of $2.6 million. This in turn resulted in the recognition of $1.2 million in expense to reflect the amount to be returned to customers under the settlement agreement.

Derivatives And Hedging

The Trust has entered into certain derivative and hedging transactions in 2008 and 2007, respectively. These transactions, accounted for using Financial Accounting Standards Board Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), include the following:

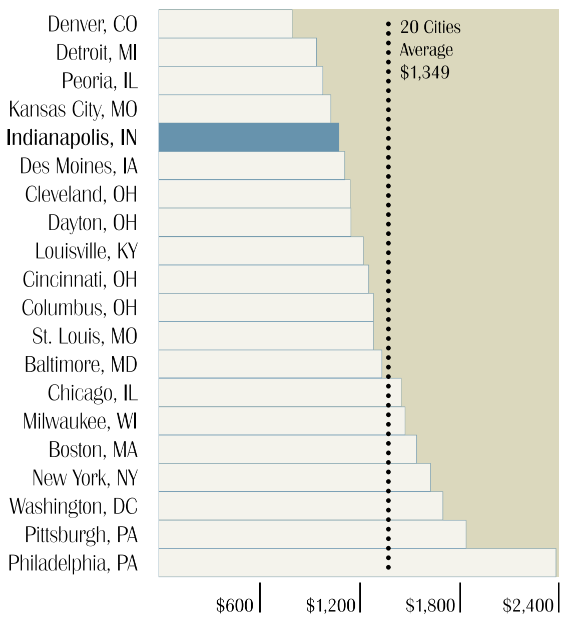
- Citizens Gas uses derivative transactions to hedge rising natural gas prices. Through a combination of fixed-price purchases, caps, collars and storage, Citizens Gas hedges approximately 80 percent of its anticipated gas load (see Note 10 of the consolidated financial statements for further details).

- The Trust hedged variable interest rate exposure through the use of a fixed-pay interest rate swap (see Note 4 of the consolidated financial statements for further details). The swap was terminated on May 23, 2008 for $7.9 million which was the market value at the time.

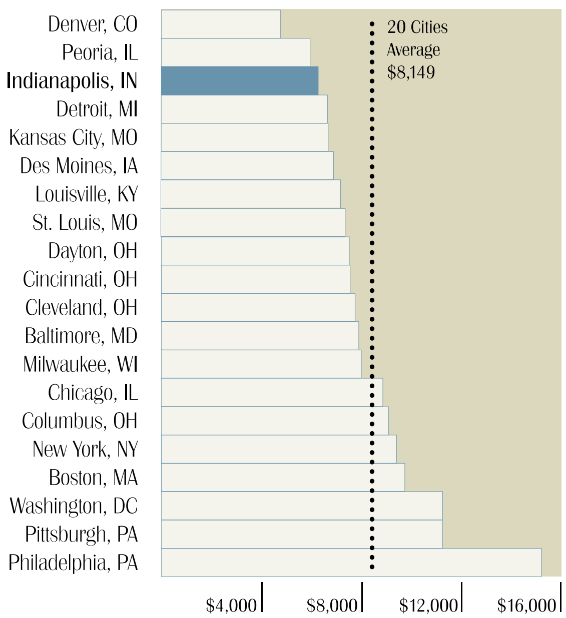
Additionally, the Trust entered into a weather hedge during 2007, which is not subject to SFAS 133. These transactions are entered into in order to hedge the risk of warmer-than-normal temperatures during the heating season. The weather hedge provides for a payment to the Trust if a certain number of heating degree days is not achieved during the heating season (see Note 10 of the consolidated financial statements for further details). The Trust recorded weather hedge income of $2.5 million during fiscal year 2007. The Trust did not enter into a weather hedge in 2008.

Citizens Gas Rate Comparison of 20 Snowbelt Cities

Residential Gas Rates
Based On 912 Therms Annually



Commercial Industrial Gas Rates
Based On 6100 Therms Annually



Consolidated Statements of Operations

Citizens Energy Group and Subsidiary, Indianapolis, Indiana
(In Thousands)

		Fiscal Year Ended September 30,	
		2008	2007
Operating Revenues:	Utility operating revenues	$ 499,957	$ 482.125
	Non-utility operating revenues	42,486	40,367
	Total operating revenues	542,443	522,492
Operating Expenses:	Cost of Goods Sold:		
	Utility cost of goods sold	339,603	338,481
	Non-utility cost of goods sold	10,883	11,665
	Total cost of goods sold	350,486	350,146
	Other operations and maintenance	57,521	56,606
	General and administrative	55,753	47,652
	Depreciation and amortization	30,257	24,822
	Taxes	15,538	14,704
	Total operating expenses	509,555	493,930
Total Operating Income		32,888	28,562
Other Income (Expense)-Net:	Interest income	4,300	6,473
	Other	(7,120)	(2,492)
	Total other income (expense)	(2,820)	3,981
Income Before Equity in Earnings of Affiliates and Interest Charges		30,068	32,543
Equity in Earnings of Affiliates		25,330	32,762
Interest Charges:	Interest on long-term debt	(25,341)	(22,414)
	Other interest including discount amortization	(4,721)	(5,181)
	Total interest charges	(30,062)	(27,595)
Income from Continuing Operations		25,336	37,710
Loss from Discontinued Operations		(5,449)	(66,290)
Net Income (Loss)		$ 19,887	$ (28,580)

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

Consolidated Statements of Financial Position

Citizens Energy Group and Subsidiary, Indianapolis, Indiana
(In Thousands)

	Assets	At September 30, 2008	2007
Property, Plant and Equipment:	Utility plant, at original cost	$ 716,719	$ 689,039
	Accumulated depreciation	378,554	361,481
		338,165	327,558
	Non-utility plant, at original cost	65,893	43,562
	Accumulated depreciation	13,405	11,514
		52,488	32,048
	Construction work in progress	31,746	31,558
		422,399	391,164
Intangibles:	Thermal customer contracts, net	118,180	122,590
		118,180	122,590
Investments:	Bond retirement funds	12,506	10,235
	Investment in affiliates	114,843	106,024
	Other	9,084	5,154
		136,433	121,413
Current Assets:	Cash and cash equivalents	29,132	21,922
	Money market funds	-	84,494
	Accounts receivable, less allowance for doubtful accounts of $2,138 and $1,251, respectively	39,377	31,770
	Accrued utility revenue	4,865	5,328
	Natural gas in storage	137,955	95,644
	Materials and supplies	7,681	7,345
	Recoverable gas and fuel costs	15,283	-
	Prepayments and deposits	2,684	2,950
	Current assets held for sale and discontinued operations	11,958	14,979
		248,935	264,432
Deferred Charges and Other Non-Current Assets:	Bond issuance cost, net	25,221	24,416
	Prepaid retirement benefit costs	-	788
	Other deferred charges	15,601	8,257
	Non-current assets held for sale and discontinued operations	2,232	(140)
		43,054	33,321
	Total Assets	$969,001	$ 932,920
	Capitalization and Liabilities		
Capitalization:	Retained earnings	$ 263,166	$ 244,140
	Accumulated other comprehensive income/(loss)	(36,415)	(27,335)
	Long-term debt (excluding current maturities)	479,559	472,808
	Retirement benefit and other long-term liabilities	27,620	29,426
	Non-current liabilities directly related to assets held for sale and discontinued operations	31,592	28,853
		765,522	747,892
Current Liabilities:	Current maturities of long-term debt	15,201	14,306
	Short-term borrowings	68,000	50,000
	Accounts payable and accrued expenses	88,691	83,151
	Accrued taxes	14,569	9,905
	Customer deposits and advance payments	13,648	12,526
	Customer benefits	1,518	2,860
	Refundable gas and fuel costs	-	8,818
	Other	399	406
	Current liabilities directly related to assets held for sale and discontinued operations	1,453	3,056
		203,479	185,028
Commitments and Contingencies (Note 11):			
	Total Capitalization and Liabilities	$ 969,001	$ 932,920

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

Consolidated Statements of Cash Flows

Citizens Energy Group and Subsidiary, Indianapolis, Indiana
(In Thousands)

	Fiscal Year Ended September 30,	
	2008	2007
Operating Activities:		
Net income (loss)	$ 19,887	$ (28,580)
Depreciation and amortization	33,690	28,076
Loss on impairment/plant write-down (discontinued operations)	-	35,820
Amortization of bond discount	930	874
Equity in earnings of affiliates, net of distributions	(18,759)	(18,587)
Allowance for doubtful accounts	(887)	86
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(6,256)	(9,758)
Natural gas in storage	(42,311)	15,801
Recoverable/refundable gas costs	(30,771)	15,671
Prepayments and deposits	266	242
Other current assets	(337)	(869)
Accounts payable and accrued expenses	9,033	19,646
Retirement benefit and other liabilities	9,299	7,663
Net change in deferred charges	(11,138)	(17,511)
Other operating activities	(7)	(688)
Net cash provided (used) by operating activities of discontinued operations	1,785	30,326
Net cash provided (used) by operating activities	(35,576)	78,212
Investing Activities:		
Construction expenditures	(54,502)	(43,703)
Purchase of investment securities	(31,680)	(324,593)
Sale and maturity of investment securities	113,904	249,144
Other investing activities	(8,239)	(3,421)
Net cash provided (used) by investing activities	19,483	(122,573)
Financing Activities:		
Proceeds from bank line of credit	42,000	25,000
Repayment of bank line of credit	(24,000)	(25,000)
Principal payments of long-term debt and bond refunding	(228,626)	(13,328)
Proceeds from bond refunding	240,050	-
Bond issuance costs	(3,918)	-
Customer benefits arising from nonregulated operations distributable to gas customers	(2,203)	(1,900)
Net cash provided (used) by financing activities	23,303	(15,228)
Net change in cash and cash equivalents	7,210	(59,589)
Cash and cash equivalents at beginning of fiscal year	21,922	81,511
Cash and cash equivalents at end of fiscal year	$ 29,132	$ 21,922

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

Consolidated Statements of Equity

Citizens Energy Group and Subsidiary, Indianapolis, Indiana
(In Thousands)

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
September 30, 2006	$ 276,720	$ (12,176)	$ 264,544
Comprehensive income (loss):			
Net loss	(28,580)		(28,580)
Unrealized gains (losses), net, on derivative instruments		37	
Comprehensive income of unconsolidated investment		9,903	
Other		(82)	9,858
Total comprehensive income (loss)			(18,722)
SFAS 158 retirement benefit liability adjustments		(25,017)	(25,017)
Customer benefit distributions	(4,000)		(4,000)
September 30, 2007	$ 244,140	$ (27,335)	$ 216,805
Comprehensive income (loss):			
Net income	$ 19,887		$ 19,887
Unrealized gains (losses), net, on derivative instruments		$ (494)	
Comprehensive loss of unconsolidated investment		(9,941)	
SFAS 158 retirement benefit liability adjustments		1,355	(9,080)
Total comprehensive income (loss)			10,807
Customer benefit distributions	(861)		(861)
September 30, 2008	$ 263,166	$ (36,415)	$ 226,751

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

1. Summary Of Significant Accounting Policies

A. Nature Of Operations:

Citizens Energy Group (the Trust), formerly Citizens Gas & Coke Utility, is the trade name under which the City of Indianapolis, by and through the Board of Directors for Utilities of the Department of Public Utilities, as successor trustee of a Public Charitable Trust, provides energy services to customers in and around Marion County, Indiana. The consolidated financial statements include five operating segments: Citizens Gas, Steam, Chilled Water, Oil and Citizens Resources (Resources), formerly Citizens By-Products (CBP). The former Manufacturing business segment is now classified as Discontinued Operations. The Trust's rates and charges for gas and steam service are regulated by the Indiana Utility Regulatory Commission (IURC). The accounting records conform to the accounting standards prescribed by the Federal Energy Regulatory Commission (FERC) and generally accepted accounting principles in the United States of America. Intercompany transactions have been eliminated in consolidation.

B. Use Of Estimates:

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from those estimates. The most significant of such estimates include unbilled revenue, Thermal contract useful lives, allowance for doubtful accounts and asset retirement obligation (Discontinued Operations).

C. Property, Plant And Equipment, Depreciation And Maintenance:

Construction costs include costs directly incurred plus overhead allocation relating to payroll, administrative and general costs. Depreciation on gas, steam and 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 oil plant is computed on a straight-line basis over the projected productive lives of the oil wells. Maintenance and repairs of property units are charged to expense as incurred. The Trust utilizes 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.

Plant, at original cost, at September 30:

(In Thousands)

Utility:	2008	2007	Useful Lives
Distribution	$518,597	$498,943	15 – 65 years
Gas storage	83,722	83,665	33 – 60 years
Production	30,051	24,365	50 – 75 years
Transmission	33,056	33,016	22 – 60 years
General plant	51,293	49,050	5 – 30 years
	$716,719	$689,039	
Non-utility:			
Distribution	$ 25,176	$ 19,657	40 – 55 years
Production	39,794	22,966	5 – 40 years
General plant	923	939	5 – 25 years
	$ 65,893	$ 43,562	

Depreciation expense was $25.7 million in 2008 and $24.1 million in 2007. Depreciation expense as a percentage of original depreciable cost is as follows:

	2008	2007
Citizens Gas	3.2%	3.2%
Steam	6.5%	5.6%
Chilled Water	4.1%	4.0%
Oil	22.7%	20.5%

Allowance for Funds Used During Construction (AFUDC) 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 AFUDC capitalized by the Trust was $0.5 million in 2008 and $0.2 million in 2007.

D. Revenue Recognition:

Revenue is recorded when earned, either when the product is delivered or when services are performed. Citizens Gas customer billings are rendered on a cycle basis on each working day throughout the month. The estimated revenue for gas delivered 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 are reversed in the subsequent accounting period when meters are actually read and customers are billed. Meter readings are taken as of month-end for a large majority of Steam and Chilled Water Division customers, with billings rendered as of month-end for all such customers.

E. Inventory:

Material and supplies in inventory are maintained at average cost, which approximates actual cost. Natural gas in storage is maintained at weighted average cost of gas.

F. Taxes:

The Trust is subject to payroll, property, utility receipts, franchise, and other miscellaneous taxes, but as a Public

Charitable Trust, is not subject to federal or state income taxes. Utility receipts taxes are included in rates charged to customers. Accordingly, the Company includes these taxes received as a component of operating revenues, which totaled $6.9 million and $6.5 million in 2008 and 2007, respectively. The expense associated with these taxes is recorded in operating expenses as taxes.

G. Recoverable (Refundable) Gas And Fuel Costs:

The difference between actual gas costs and the amounts of gas costs recovered by Citizens Gas through rates is deferred and recovered (or refunded) through gas cost adjustments (GCA) permitted by the IURC. The Trust is authorized to change its GCA factors each month as a result of changes in market prices. The difference between actual fuel costs and the amounts of fuel costs recovered by the Steam Division through rates is deferred and recovered (or refunded) through the fuel adjustment cost (FAC) permitted by the IURC. The FAC was filed with the IURC quarterly in 2008 and annually in 2007.

H. Bond Issuance Costs:

Bond premiums and discounts, debt issuance costs, and retirement gains and losses are amortized over the lives of the respective issues through the effective interest method.

I. Cash And Cash Equivalents:

For purposes of the Consolidated Statements of Financial Position and Cash Flows, the Trust considers investments purchased with a maturity of three months or less to be cash equivalents. The fair value approximates carrying value for these financial instruments. Included in cash and cash equivalents on the Consolidated Statements of Financial Position are money market funds of $25.2 million at September 30, 2008 and $9.9 million at September 30, 2007.

J. Supplemental Disclosures Of Cash Flow Information:

	(In Thousands) 2008	2007
Cash paid during the year for:		
Interest	$ 25,307	$ 24,873
Non-cash investing activities were as follows:		
Accrued construction work-in-progress	$ 2,292	$ -
Comprehensive gain (loss) on investment in affiliates	(9,941)	9,903
Unrealized losses on derivatives, net	(4,141)	(2,816)
Total non-cash investing activities	$(11,790)	$ 7,087

K. Fair Value Of Financial Instruments:

The carrying amount reported in the Consolidated Statements of Financial Position for current assets and current liabilities approximates the fair value. Fair value of the Company's bond retirement funds has been determined using quoted prices on an active market (see Note 2). Management has estimated the fair value of long term debt using discounted cash flow analysis, based on the Trust's current expected borrowing rates for similar borrowing arrangements (see Note 4). Fair value of the Company's derivative instruments has been determined using quoted prices on an active market (see Note 10).

L. Asset Impairment:

Long-lived assets and certain amortizing intangible assets held and used by the Trust 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. Measurement of an impairment loss is based on the discounted value cash flows related to these specific assets or asset group. In March, 2007, the process for sale of Indianapolis Coke (Manufacturing Division) concluded unsuccessfully. With the failure to secure a buyer, prior and current year nominal cash losses, and operating losses expected to continue indefinitely, the Board of Directors voted on April 11, 2007, to cease operations as soon as reasonably practical. Consequently, an impairment charge of $35.8 million was recorded. Manufacturing (now classified as Discontinued Operations) plant assets at September 30, 2008 are $2.3 million, representing the estimated remaining salvage value of the plant (see Note 9).

M. Intangible Assets:

Certain customer contracts valued at $111.0 million at September 30, 2007, were considered to be indefinite-lived. These assets were not amortized but reviewed for impairment at least annually. Based on substantial market changes taking place in the energy industry, including rising fuel costs, a trend toward energy conservation, and increasingly stringent environmental requirements, management believes there is a higher possibility for these customers to migrate to other fuels, find ways to adapt to alternative means of providing their own steam and chilled water, or seek modifications to the original contracts. As a result of these considerations, management concluded that these contracts should be finite-lived. Consequently, the Trust began amortizing the contracts over their expected useful lives (estimated to be from 20 to 30 years), effective October 1, 2007. In accordance with paragraph 16 of SFAS 142, the Trust tested these assets for impairment, by estimating the present value of discounted future cash flows, on September 30, 2007, and found no impairment. The value of all customer contracts are amortized on a straight-line basis over their expected useful lives of 20-30 years. The gross value of intangible customer contracts was $129.7 million at September 30, 2007 and 2008, respectively. The value of finite-lived contracts was $129.7 million and $18.7 million at September 30, 2008 and 2007 respectively. Accumulated amortization for all intangible customer contracts was $11.5 million and $7.1 million at September 30, 2008 and 2007, respectively. Amortization expense of such assets was $4.4 million and $0.6 million in 2008 and 2007, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years is $4.4 million per year.

N. Regulatory Developments, Assets And Liabilities:

a. Regulatory Developments

On March 18, 2008, the Trust filed a petition with the Indiana Utility Regulatory Commission (IURC) requesting approval of a new schedule of rates and charges to increase its gas utility operating revenues. On September 17, 2008, the IURC issued an Order approving a settlement agreement between the Trust, the Indiana Office of Utility Consumer Counselor and a group of industrial customers that intervened in the IURC proceeding. The IURC Order authorized the Utility to adjust its rates and charges in order to increase its gas utility operating revenues by $16.7 million or 3.7 percent. In addition to the rate increase, the IURC Order authorized the Utility to recover the gas cost component of its net write-offs in its quarterly gas cost adjustment filings, approved new depreciation accrual rates and approved other changes to the Trust's general terms and conditions for gas utility service, including a change to the test used to determine when deposits are required for extension of facilities. The Trust implemented the IURC-approved rate increase and the approved changes to its general terms and conditions for gas utility service effective September 19, 2008.

On October 19, 2006, the IURC approved an annual $14.7 million gas base rate increase. On November 8, 2006, the gas utility filed a request for rehearing and partial reconsideration of certain aspects of the IURC's October 19, 2006 rate order. On November 17, 2006, the Trust filed a notice of appeal with the Indiana Court of Appeals preserving its ability to appeal certain aspects of the IURC's final order in that case. Subsequently, a settlement agreement between the Trust, the Indiana Office of the Utility Consumer Counselor, and the Industrial Intervener group was reached. The IURC approved that settlement agreement on August 29, 2007, which, among other things, authorized the Trust to implement a decoupling mechanism that will ensure the Trust's gross margin more closely tracks the Trust's authorized margin requirement approved by the IURC. As a result of the IURC's approval of the settlement agreement, the petitions for rehearing and appeal of the rate case order were dismissed.

On February 28, 2007, the IURC approved a normal temperature adjustment (NTA) mechanism that weather normalizes the usage of certain gas customers during the months of October through April. The NTA was implemented with April, 2007 bills. Together, the NTA and the decoupling mechanism provide the decoupled rate design needed to provide for the long term needs of the gas distribution system and its customers.

On December 29, 2006, Citizens Thermal filed a petition with the IURC requesting approval of a new schedule of rates and charges to increase its steam utility operating revenues. On October 30, 2007, the IURC approved a settlement agreement between the Trust, the Indiana Office of the Utility Consumer Counselor, and the Industrial Intervener group, which, among other things, authorized new rates reflecting an annual $6.5 million phase 1 increase in operating revenues effective November 1, 2007, and an annual $3.1 million phase 2 increase effective December 1, 2008, to recover increased costs that will be incurred under a new steam purchase agreement effective on that date and transition from an annual to a quarterly adjustment to its fuel cost recovery mechanism. As a result of the settlement agreement, the Steam Division recognized previously deferred emissions credit revenue of $2.6 million. This in turn resulted in the recognition of $1.2 million in expense to reflect the amount to be returned to customers under the settlement agreement.

b. Regulatory Assets and Liabilities

Financial Accounting Standards Board Statement No. 71, *Accounting for Certain Types of Regulation* (SFAS 71), applies to regulated entities, for which rates are designed to recover the costs of providing service. In accordance with this statement, certain items that would normally be reflected in the Consolidated Statements of Operations are deferred on the Consolidated 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 customers through the rate-making process. The balance of these deferred costs was a net regulatory asset of $22.3 million at September 30, 2008, and a net regulatory liability of $6.0 million at September 30, 2007. The Trust continuously monitors changes in market and regulatory conditions and considers the effects of any changes in assessing the continual applicability of SFAS 71.

Regulatory assets (liabilities) were comprised of the following at September 30, 2008 and 2007 (in millions):

	2008	2007	Recovery/Refund Period
Deferred Regulatory Proceeding Costs	$ 1.1	$ 1.7	various
Deferred SFAS 106 Costs	2.7	3.2	through 2014
Deferred Fuel Tracking Adjustments	6.1	(8.9)	1 – 18 months
Price Volatility Mitigation Program	9.2	(0.1)	1 – 13 months
Decoupled Sales Component*	7.2	(0.1)	1 – 15 months
Regulatory Credit for Remediation	(4.1)	(1.8)	not yet refunded
Other	0.1	-	various
Total Regulatory Assets (Liabilities)	$22.3	$(6.0)	

*The Company is allowed to defer for subsequent recovery decoupling regulatory assets as authorized by the IURC.

O. Software Developed For Internal Use:

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

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 Consolidated Statements of Equity. The Trust's components of accumulated other comprehensive income (loss) include SFAS158 impact on pension and other post-retirement benefits, unrealized gains (losses) on an interest rate swap, gains (losses) on other derivative instruments and its share of ProLiance Energy, LLC (ProLiance) other comprehensive income. The Trust records its portion of ProLiance's other comprehensive income as increases or decreases to the investment account with a corresponding adjustment to other comprehensive income.

Q. Customer Benefit Distribution:

The Trust's Customer Benefit Distribution policy establishes a mechanism that allows for the distribution to gas customers of certain prior period earnings from non-regulated businesses. The Board of Directors for the Trust determines the amount of funds, if any, from non-regulated businesses to be distributed. The Board strives to employ its capital to achieve, in its judgment, an appropriate balance between short-term benefits (e.g., lower gas bills, community investment, etc.) and long-term benefits (e.g., invest to create economic benefits for the future). In September, 2007, $2.0 million was authorized and approved for distribution as a result of fiscal year 2007 operations and was distributed in calendar year 2008. In September, 2008, $0.9 million was authorized and approved for distribution as a result of fiscal year 2008 operations and will be distributable in calendar year 2009.

R. Reclassifications:

Certain operating expense, interest income, other income (expense) and interest expense reclassifications have been made in the 2007 Consolidated Statement of Operations and notes to the financial statements of the prior year to conform to the current year presentation. These reclassifications have no effect on previously reported revenues, cost of goods sold, income from continuing operations or net income (loss). The table below shows the affected balances before and after reclassification:

	(In Thousands)		
	2007 As Previously Reported	Adjustment	2007 As Reclassified
Consolidated Statement of Operations:			
Other operations and maintenance	$59,667	$ (3,061)	$56,606
General and administrative	44,018	3,634	47,652
Depreciation and amortization	24,810	12	24,822
Taxes	14,634	70	14,704
Interest income	4,865	1,608	6,473
Other income (expense), net	(1,893)	(599)	(2,492)
Interest on long-term debt	(22,064)	(350)	(22,414)
Other interest including discount amortization	(5,177)	(4)	(5,181)

The non-current liability portions of Non-Manufacturing and Manufacturing (Discontinued Operations) retirement benefit costs (*Employers Accounting for Postretirement Benefits Other Than Pensions,* SFAS 106) have been reclassified in the 2007 Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and notes to the financial statements of the prior year to conform to the current year presentation. These reclassifications have no effect on previously reported total capitalization and liabilities and net cash provided by operating activities. The table below shows the affected balances before and after reclassification:

	(In Thousands)		
	2007 As Previously Reported	Adjustment	2007 As Reclassified
Consolidated Statement of Financial Position:			
Other long-term liabilities	$13,518	$ 15,908	$29,426
Non-current liabilities directly related to assets held for sale and discontinued operations	24,224	4,629	28,853
Accounts payable and accrued expenses	99,059	(15,908)	83,151
Current liabilities directly related to assets held for sale and discontinued operations	7,685	(4,629)	3,056
Consolidated Statement of Cash Flows:			
Accounts payable and accrued expenses	29,032	(9,386)	19,646
Retirement benefit and other liabilities	(1,723)	9,386	7,663

The 2007 Consolidated Statement of Cash Flows has previously been restated to correct for the misclassification of distributions received from investments in unconsolidated affiliates as investing cash flows.

S. New Accounting Standards

SFAS No. 141 (revised 2007) – Business Combinations. In December, 2007, the FASB issued SFAS No. 141 (revised), *Business Combinations* (SFAS 141R). This statement replaces previously issued FASB Statement No. 141, *Business Combinations*. This statement retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the 'purchase method') be used for all business combinations and for an acquirer to be identified for each business combination. This statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This statement establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Trust is currently assessing the impact this statement will have on its consolidated financial statements.

SFAS No. 157 – Fair Value Measurements. In September, 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements; however, the standard will impact how other fair value based GAAP is applied. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with early adoption encouraged. Subsequent to issuance, the FASB issued three FASB Staff Position papers (FSP 157-1, 157-2, and 157-3) relating to fair value measurements. FSP FAS 157-1 amends SFAS 157 to exclude SFAS 13, *Accounting for Leases,* except for assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS 141, *Business Combinations*. FSP FAS 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP FAS 157-3 clarifies the application of SFAS 157 when the market for a financial asset is not active. The Trust is currently assessing the impact this statement will have on its consolidated financial statements.

SFAS No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. In September, 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158). The Trust adopted this statement as of September 30, 2007. This statement required employers to measure plan assets and benefit obligations as of the date of the employer's fiscal year end statement of financial position (paragraphs 5, 6 and 9) with an effective date of fiscal years ending after December 15, 2008. The Trust has assessed the impact of this component of this statement, and anticipates implementing this requirement during its fiscal year 2009.

SFAS No. 159 – The Fair Value Option for Financial Assets and Financial Liabilities. In February, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* – including an amendment of FASB Statement No. 115 (SFAS 159). This statement permits entities to choose, at specified election dates, to measure many financial instruments and other items at fair value that are not currently required to be measured at fair value. Once the fair value option is made on a particular instrument, it is irrevocable. Unrealized gains and losses, including upfront costs and fees, would be reported for which instruments the fair value option has been elected in earnings. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years with early adoption encouraged, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. The Trust has assessed the impact this statement would have on its consolidated financial statements, and as a result, has decided not to apply the fair value option to any financial assets or liabilities.

SFAS No. 160 – Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51. In December, 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement changes the way the consolidated income statement is presented. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. The statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. This statement requires a gain or loss in net income be recognized when a subsidiary is deconsolidated. This statement expands disclosures. This statement is effective for fiscal years beginning on or after December 15, 2008. The Trust is currently assessing the impact this statement will have on its consolidated financial statements.

SFAS No. 161 – Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities. In March, 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. This statement is effective for fiscal years and interim periods beginning after November 15, 2008. The Trust is currently assessing the impact this statement will have on its consolidated financial statements.

FSP FAS No. 142-3 – Determination for the Useful Life of Intangible Assets. In April, 2008 the FASB issued Staff Position 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). This statement amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB statement No. 142, *Goodwill and Other Intangible Assets*. This statement is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Trust is currently assessing the impact this statement will have on its consolidated financial statements.

2. Bond Retirement Funds

Under the terms of various trust indentures, the Trust is required to maintain bond retirement funds. These bond retirement funds are invested in short-term cash-equivalent securities. Due to the nature of these investments, cost is equal to market value of $12.5 million at September 30, 2008, and $10.2 million at September 30, 2007. Gross proceeds on the bond retirement funds investments that matured during 2008 and 2007 were $29.1 million and $29.4 million, respectively. There were no realized gains or losses associated with the sales. In addition, the Trust invested in debt securities, with call dates of less than one year, of $0 and $6.1 million at September 30, 2008 and 2007, respectively.

3. Investment In Unconsolidated Affiliates

ProLiance, an energy marketing, management services, asset development and operations company, is an affiliation of equal ownership between Citizens Resources (Resources), the Trust's wholly-owned subsidiary, and Vectren Energy Marketing & Services, Inc., a wholly-owned subsidiary of Vectren Corporation (Vectren), was formed in March, 1996. Effective June 1, 2002, Vectren and the Trust agreed to split profits 61 percent and 39 percent, respectively. The Trust purchased $349.5 million and $284.8 million of gas from ProLiance in 2008 and 2007, respectively. In addition, the Trust received $48,000 in 2008 and $66,000 in 2007 from ProLiance as reimbursement for various general and administrative expenses. At September 30, 2008 and 2007, the Trust owed ProLiance $28.0 million and $20.2 million, respectively, for gas purchased. ProLiance is accounted for under the equity method.

Remittance Processing Services, LLC (RPS), an affiliation of equal ownership between Resources and IPALCO Enterprises, Inc. (IPALCO) was formed in August 1996 and began providing services in February, 1997. RPS provides payment processing services for the Trust, IPALCO and others. The Trust paid $255,000 and $265,000 to RPS for services in 2008 and 2007, respectively. The Trust received $15,000 and $25,000 for reimbursement of payroll, employee benefit, and various general and administrative expenses paid on behalf of RPS in 2008 and 2007, respectively. RPS is accounted for under the equity method.

Heartland Gas Pipeline, LLC (Heartland), owns and operates an intrastate natural gas pipeline regulated by the IURC and is an affiliation of equal ownership between Resources and ProLiance. The Trust assessed its accounting for Heartland using Financial Interpretation No. 46-R, *Consolidation of Variable Interest Entities* (FIN 46R), and has determined that for fiscal year 2008 and 2007, the entity should not be consolidated. Heartland is accounted for under the equity method. The Trust received storage rental fees from Heartland of $579,000 and $622,000 in 2008 and 2007, respectively.

Resources has a minority interest in BHMM Energy Services, LLC (BHMM Energy Services), an entity created to provide energy facilities management services. In January, 2006, BHMM Energy Services entered into a contract with the Indianapolis Airport Authority (IAA) to operate the Central Energy Center (CEC) at the Indianapolis Airport and to provide hot and chilled water and other incidental services to the Indianapolis Maintenance Center (IMC). Resources contributed $0.4 million in March, 2006 to BHMM Energy Services and BHMM Energy Services took over operations of the CEC on April 1, 2006. BHMM Energy Services is accounted for under the equity method.

Summarized financial information of unconsolidated affiliates is presented on the next page (in millions).

	2008 ProLiance	2008 Other	2008 Total	2007 ProLiance	2007 Other	2007 Total
Condensed Statement of Operation:						
Sales	$ 2,728	$ 8	$ 2,736	$ 2,294	$ 9	$2,303
Gross profit	91	5	96	108	8	116
Net income	63	2	65	83	1	84
Condensed Statement of Financial Position:						
Current assets	$ 697	$ 3	$ 700	$ 490	$ 2	$ 492
Non-current assets	46	21	67	43	46	89
	$ 743	$ 24	$ 767	$ 533	$ 48	$ 581
Current liabilities	$ 454	$ 2	$ 456	$ 265	$ 2	$ 267
Non-current liabilities	4	9	13	4	33	37
Equity	285	13	298	264	13	277
	$ 743	$ 24	$ 767	$ 533	$ 48	$ 581

4. Long-Term Debt

Long-term debt consisted of the following at September 30:

	(In Thousands) 2008	2007
Gas Utility System Revenue Refunding Bonds Series 1986B, 3.50% to 4.00%, due 2013 to 2018	$ 60,560	$ 60,560
Gas Utility Distribution System Revenue Refunding Bonds Series 1998A, 5.00%, to 5.75%, due to 2024	98,760	106,075
Series 2001 Second Lien Multi-Mode Revenue Bonds, due 2025 to 2029	-	102,375
Series 2003A, Second Lien Multi-Mode Revenue Bonds, due to 2021	-	68,615
Series 2008A, Second Lien Multi-Mode Revenue Bonds, 5.00%, due 2027 to 2030	55,850	-
Series 2008B, Second Lien Multi-Mode Revenue Bonds, 5.25%, due 2025 to 2027	55,855	-
Series 2008C, Second Lien Multi-Mode Revenue Bonds, 4.00% to 5.25%, due to 2021	69,795	-
Thermal Energy System Revenue Bonds Series 2001A, 3.80% to 5.50%, due 2004 (October) to 2021	97,125	101,910
Series 2001B, Multi-Mode Revenue Bonds, due 2021 to 2025	-	48,775
Thermal Energy System Series 2008, Multi-Mode Revenue Bonds, 5.00%, due 2022 to 2026	50,070	-
Citizens Resources Term Loan, 5.26%, due 2010	4,598	4,972
Net Unamortized Bond Premium (Discount)	2,147	(6,168)
Current Maturities	(15,201)	(14,306)
Total Long-Term Debt	$479,559	$472,808

The Gas Utility System (GUS) revenue refunding bonds were issued pursuant to a trust indenture dated as of July 1, 1986. These bonds are secured by and payable from the income and revenues of the entire Trust excluding Citizens Thermal (Steam and Chilled Water) operations. The Gas Utility Distribution System (GUDS) Revenue Refunding Bonds, Series 1998A, Series 2008A, Series 2008B and Series 2008C, are secured by and payable from the income and revenues of the GUDS as provided for in the respective trust indentures. The Series 1998A first lien bonds are subordinate to the bonds outstanding under the 1986 trust indenture. The GUDS Second Lien Multi-Mode Revenue Bonds, Series 2008A, Series 2008B and Series 2008C were issued on April 10, 2008 (Series A&B) and June 10, 2008 (Series C) in conjunction with the refunding of the Series 2001 and Series 2003A bonds. The new issues are subordinate to the bonds issued under the 1986 trust indenture and the bonds issued under the 1998 trust indenture.

The City of Indianapolis Thermal Energy System Revenue Bonds, Series 2001A and 2001B were issued pursuant to a Thermal Energy System trust indenture dated January 1, 2001. The 2001B notes were refunded on April 10, 2008, and the 2008 bonds were issued in their place. The bonds issued under the Thermal Energy System trust indenture are secured by and payable from all income and revenues of the Thermal Energy System provided for in the Thermal Energy System trust indenture.

Citizens Resources entered into a $5 million term loan during 2005 with JP Morgan Chase, the proceeds of which are used for general corporate purposes at Resources.

The Trust is obligated to satisfy certain covenants, including meeting certain minimum debt service coverage requirements for each bond issue. The Trust's debt service coverage ratios are summarized as follows for 2008:

	Minimum Covenant Requirement	2008 Actual
GUS Revenue Refunding Bonds Series 1986B	1.40	27.70
GUDS Revenue Refunding Bonds Series 1998A	1.10	3.03
Series 2008A, Series 2008B & Series 2008C, Second Lien Multi-Mode Revenue Bonds	1.00	1.62
Thermal Energy System Revenue Bonds Series 2001A and 2008	1.00	1.65
Resources Term Loan	3.00	7.38

Concurrent with the issuance of the Series 2003 bonds, the Trust entered into an amortizing fixed-rate pay interest rate swap agreement. The notional value of the swap was $70.4 million as of September 30, 2007. Under the terms of the swap agreement, the Trust paid a monthly fixed rate of 4.59 percent of the notional amount to the swap provider and received a monthly variable rate payment equal to 70 percent of the average one month LIBOR rate for each monthly period. The variable rate received from the counterparty approximated the variable rate paid to bondholders on the Series 2003 bonds. The swap was terminated on May 23, 2008 for $7.9 million which was the market value at the time.

In August, 2006, The Trust entered into an interest rate swaption agreement attributed to the Series 1998A bonds. The fair market value of this interest rate swaption at September 30, 2007 was $4.9 million and recorded in Retirement benefit and other long-term liabilities on the Trust's Consolidated Statements of Financial Position. The swaption was terminated on May 28, 2008 for $7.6 million.

Principal maturities of long-term debt for the next five years and thereafter are as follows:

	(In Thousands)
2009	$ 15,201
2010	19,793
2011	16,875
2012	17,710
2013	18,570
Thereafter	404,464
Total principal maturities	$492,613

The fair value of the Trust's bonds is estimated using discounted cash flows based on current rates offered to the Trust for similar debt with similar maturities. Using this method, the estimated fair value of the debt is $469.6 million at September 30, 2008 and $489.2 million at September 30, 2007.

5. Short-Term Borrowings

The Trust maintains a tax-exempt commercial paper program to meet short-term working capital and construction expenditure requirements with $50 million authorized and outstanding for Citizens Gas at September 30, 2008 and 2007. The commercial paper is to be re-marketed in December, 2008 and January, 2009. Citizens Gas has $125 million of one year working capital lines of credit available to fund such needs, an increase of $75 million from fiscal year 2007. As of September 30, 2008, $107 million of such lines of credit remained available. The $50 million line of credit has a maturity date of May, 2009 and an interest rate of LIBOR plus .50 percent. The $18 million outstanding at September 30, 2008 was funded from such $50 million line of credit. The $75 million line of credit has a maturity date of July, 2009 and an interest rate of LIBOR plus .85 percent.

6. Accounts Payable And Accrued Expenses

Accounts payable and accrued expenses as shown in the accompanying Consolidated Statements of Financial Position are comprised of the following components at September 30, 2008 and 2007, respectively:

	(In Thousands)	
	2008	2007
Accounts payable	**$ 14,833**	$ 19,452
Related party payable – ProLiance Energy	**27,974**	20,255
Salaries and employee benefits	**10,345**	9,980
Customer credit balances	**17,764**	20,379
Post-retirement benefits	**1,490**	1,250
Accrued interest	**8,842**	5,599
Other	**7,443**	6,236
Total accounts payable and accrued expenses	**$ 88,691**	$ 83,151

7. Retirement Plans

The Trust has a non-contributory defined benefit pension plan covering substantially all full time employees. The policy of the Trust 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.

In January, 2007, the Trust combined the Bargaining and Non-Bargaining pension plans into one Plan for Citizens Energy Group Employees.

The Trust adopted SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans,* as of September 30, 2007. In adopting SFAS 158, the Trust recognized the funded status of its defined benefit and post-retirement benefit plans with a corresponding adjustment to Accumulated Other Comprehensive Income on its Consolidated Statements of Financial Position.

In addition to providing defined benefit pension plan benefits, the Trust also offers other retirement benefits to eligible employees including a pension restoration policy, thrift savings plans, and post-retirement health care benefits.

The pension restoration policy provides retirement benefits for employees whose pension benefit exceeds the maximum allowable benefit under the Employee Retirement Income Security Act (ERISA) for qualified pension plans and thrift plans. The restoration policy replaced the previous pension replacement plan effective January, 2007, and is a non-qualified plan for income tax purposes.

The thrift savings plans are defined contribution plans covering most employees. The Trust matches a portion of the contributions made by the employees to the savings plans. The cost to the Trust for its matching portion was $1.2 million and $1.6 million for 2008 and 2007, respectively.

The Trust provides post-retirement health and dental benefits to eligible retirees, which includes payment of up to 80 percent of single and dependent coverage premiums until age 65. The percentage of premiums paid by the Trust is dependent upon the age and years of service at the date the employee retires. The post-retirement benefit plan is unfunded. The Trust accrues the expected cost of post-retirement health benefits during the years in which employees render service. This expense was $1.8 million and $2.0 million for 2008 and 2007, respectively. Since 1994, in accordance with an IURC order permitting the deferral of costs in excess of pay as you go, the Trust had been deferring such post-retirement benefit costs of Citizens Gas. Management has received an IURC order allowing recovery of these costs over a twelve-year period. The Trust has deferred $2.7 million and $3.2 million as of September 30, 2008 and 2007, respectively. Post-retirement benefit costs applicable to the Thermal, Manufacturing and Oil divisions have not been deferred.

In February, 2007, the Trust offered an enhanced early retirement package to 41 Manufacturing Division employees in anticipation of the sale of the division. On June 30, 2007, 34 employees had accepted the offer and retired on that date. In July, 2007, a similar package was offered to Corporate employees. On December 31, 2007, 12 employees had accepted the offer and retired on that date. The early retirement offer included enhanced benefits for those employees 50 years of age and with 75 points (calculated as the number of years of service plus the employee's age) or more. The benefit costs for employees who have accepted the offer have been reflected in the financial statements.

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 the Trust's Consolidated Statements of Financial Position at September 30, 2008 and 2007:

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2008	2007	**2008**	2007
Projected Benefit Obligation (PBO)	**$176,336**	$ 189,803	**$ 21,852**	$ 22,223
Plan assets at fair value	**169,469**	185,135	**-**	-
Additional fund contribution after measurement date	**-**	1,215	**-**	-
Funded status	**$ (6,867)**	$ (3,453)	**$(21,852)**	$(22,223)
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Current liability	**$ -**	$ -	**$ (2,066)**	$ (1,686)
Non-current liability	**(6,867)**	(3,453)	**(19,786)**	(20,537)
Net amounts recognized	**$ (6,867)**	$ (3,453)	**$(21,852)**	$(22,223)
Amounts in Accumulated Other Comprehensive Income (AOCI) not in costs*:				
Unrecognized transition obligation	**$ -**	$ -	**$ 2,959**	$ 3,549
Unrecognized prior service cost	**4,526**	3,180	**731**	892
Unrecognized actuarial gain	**24,397**	24,940	**2,165**	3,572
Total Amounts in AOCI	**$ 28,923**	$ 28,120	**$ 5,855**	$ 8,013

* The amounts expected to be recognized in 2009 out of AOCI, in thousands, are $3,649 for unrecognized prior service costs and $23,748 of unrecognized actuarial gain (loss) totaling $27,397 as calculated by the Trust's actuary.

The net periodic benefit cost for these plans included the following components:

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2008	2007	**2008**	2007
Service cost-benefits attributed to service during the period	**$ 4,004**	$ 5,330	**$ 661**	$ 1,058
Interest cost	**10,870**	10,440	**1,186**	1,323
Actual return on assets	**7,274**	(26,244)	**-**	-
Amortization of transition obligation	**-**	-	**590**	590
Amortization of prior service cost	**701**	611	**161**	407
Amortization of loss	**-**	1,564	**-**	-
Actuarial gain (loss)	**(20,701)**	14,658	**212**	325
Net periodic benefit cost	**2,148**	6,359	**2,810**	3,703
Curtailment expense	**705**	-	**-**	-
Early retirement window expense	**1,251**	4,213	**650**	-
Amount deferred	**-**	-	**451**	451
Total expense for the year	**$ 4,104**	$ 10,572	**$ 3,911**	$ 4,154

The weighted-average assumptions used to determine net periodic benefit costs at September 30 are as follows:

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2008	2007	**2008**	2007
Expected long-term rate of return on assets	**7.50%**	7.50%	**-**	-
Discount rates used to value benefit obligations	**6.80%**	6.10%	**7.69%**	6.13%
Discount rates used to value net periodic benefit costs	**6.10%**	6.14%	**6.13%**	5.66%
Increase in participant compensation rates	**3.50%**	3.50%	**-**	-
Healthcare cost trend rate assumed for next year			**9.0%**	9.0%
Rate to which the cost trend is assumed to decline (ultimate trend rate)			**5.0%**	5.0%
Year that the rate reaches ultimate trend rate			**2010**	2010

To calculate the expected long-term rate of return on assets, the Trust 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 dates of June 30, 2008 and 2007 were used to determine the pension cost for the years 2008 and 2007.

The Trust's pension plan weighted-average asset allocation as of June 30, 2008 and 2007, by asset category is as follows:

	2008	2007
Equity securities	**68%**	69%
Debt securities	**25%**	29%
Other	**7%**	2%
Total	**100%**	100%

The primary investment objective of the retirement funds is to earn a reasonable rate of return over a market cycle while avoiding high levels of risk. The portfolio's return is monitored in total and is designed to outperform inflation. These investment objectives are long-term in nature.

Employer contribution, participant contributions and benefits paid during the year:

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2008	2007	**2008**	2007
Employer contributions	**$ 2,707**	$ 4,028	**$ 1,674**	$ 1,716
Participant contributions	**$ -**	$ -	**$ 351**	$ 329
Benefits paid	**$11,099**	$ 9,275	**$ 2,025**	$ 2,045

The Trust expects to contribute, at a minimum, $3.5 million to its pension plan for 2009. The following retirement benefit payments, which reflect future service, as appropriate, are expected to be paid:

	Defined Benefit Pension (In Thousands)	Other Benefits (In Thousands)
2009	$ 9,887	$ 1,985
2010	$ 9,863	$ 2,066
2011	$ 10,001	$ 2,223
2012	$ 10,229	$ 2,266
2013	$ 10,572	$ 2,171
Years 2014-2018	$ 62,670	$ 11,928

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

	(In Thousands)	
	2008	2007
Effect on total of service and interest cost	**$ 193**	$ 298
Effect on post-retirement benefit obligation	**$ 1,763**	$ 2,384

8. Financial Segment Information

The operations of the Trust include activities in five business segments: Citizens Gas, Steam, Chilled Water, Oil and Resources.

Citizens Gas activities include purchasing natural gas; operating underground natural gas storage and liquefied natural gas storage facilities in Indiana; distributing natural gas to residential, commercial and industrial customers located in Marion County, Indiana; and distributing manufactured gas in 2007 to a steam production facility.

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

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

Oil activities include the production and sale of crude oil from reserves discovered in connection with development of underground natural gas storage fields.

Resources has invested in several energy-related subsidiaries and affiliated joint ventures in order to broaden the business activities of the Trust and to ultimately provide enhanced benefits to Trust beneficiaries.

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 is now classified as Discontinued Operations.

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

A corporate support group comprised of various administrative departments provides support services to each of the Trust's business segments, certain affiliates, and for the Trust as a whole, and charges the associated cost of the services to the appropriate segment. Management reviews the allocation methodology for the corporate support services on a regular basis and refines the methodology as necessary.

Segment information for the years ended September 30, 2008 and 2007 are summarized as follows:

Segment Footnote - Consolidated Statement Of Operations

Citizens Energy Group and Subsidiary, Indianapolis, Indiana
(In Thousands)
For Fiscal Year Ended September 30, 2008

	Citizens Gas	Steam	Chilled Water	Oil	Resources	Other	Disc Ops	**Total**
Operating revenues:								
Utility operating revenues	428,977	65,629	-	-	5,351	-	-	**499,957**
Non-utility operating revenues	-	-	31,223	7,974	3,289	-	-	**42,486**
Total operating revenues	428,977	65,629	31,223	7,974	8,640	-	-	**542,443**
Operating expenses:								
Cost of goods sold:								
Utility cost of goods sold	299,602	36,029	-	-	3,972	-	-	**339,603**
Non-utility cost of goods sold	-	-	9,606	-	1,277	-	-	**10,883**
Total cost of goods sold	299,602	36,029	9,606	-	5,249	-	-	**350,486**
Other operations and maintenance	37,818	14,189	3,844	1,154	516	-	-	**57,521**
General and administrative	41,472	6,427	3,240	203	4,411	-	-	**55,753**
Depreciation and amortization	20,440	3,785	4,814	408	810	-	-	**30,257**
Taxes	11,841	1,416	1,589	140	552	-	-	**15,538**
Total operating expenses	411,173	61,846	23,093	1,905	11,538	-	-	**509,555**
Total operating income (loss)	17,804	3,783	8,130	6,069	(2,898)	-	-	**32,888**
Other income (expense)-net:								
Interest income	2,451	215	367	185	1,082	-	-	**4,300**
Other	(4,537)	-	152	-	(18)	(2,717)	-	**(7,120)**
Total other income (expense)	(2,086)	215	519	185	1,064	(2,717)	-	**(2,820)**
Income (loss) before equity in earnings of affiliates and interest charges	15,718	3,998	8,649	6,254	(1,834)	(2,717)	-	**30,068**
Equity in earnings of affiliates	-	-	-	-	25,330	-	-	**25,330**
Interest charges:								
Interest on long-term debt	17,044	3,319	4,707	-	271	-	-	**25,341**
Other interest including discount amortization	4,555	10	153	-	3	-	-	**4,721**
Total interest charges	21,599	3,329	4,860	-	274	-	-	**30,062**
Income (loss) from continuing operations	(5,881)	669	3,789	6,254	23,222	(2,717)	-	**25,336**
Loss from discontinued operations	-	-	-	-	-	-	(5,449)	**(5,449)**
Net income (loss)	(5,881)	669	3,789	6,254	23,222	(2,717)	(5,449)	**19,887**

Segment Footnote - Consolidated Statement Of Operations

Citizens Energy Group and Subsidiary, Indianapolis, Indiana
(In Thousands)
For Fiscal Year Ended September 30, 2007

	Citizens Gas	Steam	Chilled Water	Oil	Resources	Other	Disc Ops	Total
Operating revenues:								
Utility operating revenues	419,271	58,028	-	-	4,826	-	-	482,125
Non-utility operating revenues	-	-	31,996	5,085	3,286	-	-	40,367
Total operating revenues	419,271	58,028	31,996	5,085	8,112	-	-	522,492
Operating expenses:								
Cost of goods sold:								
Utility cost of goods sold	299,826	35,019	-	-	3,636	-	-	338,481
Non-utility cost of goods sold	-	-	10,493	-	1,172	-	-	11,665
Total cost of goods sold	299,826	35,019	10,493	-	4,808	-	-	350,146
Other operations and maintenance	39,529	12,199	3,652	1,031	195	-	-	56,606
General and administrative	35,385	5,986	2,260	93	3,928	-	-	47,652
Depreciation and amortization	19,516	2,221	1,808	475	802	-	-	24,822
Taxes	11,298	1,245	1,572	91	498	-	-	14,704
Total operating expenses	405,554	56,670	19,785	1,690	10,231	-	-	493,930
Total operating income (loss)	13,717	1,358	12,211	3,395	(2,119)	-	-	28,562
Other income (expense)-net:								
Interest income	3,203	921	846	2	1,501	-	-	6,473
Other	(22)	-	-	-	(13)	(2,457)	-	(2,492)
Total other income (expense)	3,181	921	846	2	1,488	(2,457)	-	3,981
Income (loss) before equity in earnings of affiliates and interest charges	16,898	2,279	13,057	3,397	(631)	(2,457)	-	32,543
Equity in earnings of affiliates	-	-	-	-	32,762	-	-	32,762
Interest charges:								
Interest on long-term debt	15,004	3,109	4,058	-	243	-	-	22,414
Other interest including discount amortization	5,335	(118)	(40)	-	4	-	-	5,181
Total interest charges	20,339	2,991	4,018	-	247	-	-	27,595
Income (loss) from continuing operations	(3,441)	(712)	9,039	3,397	31,884	(2,457)	-	37,710
Loss from discontinued operations	-	-	-	-	-	-	(66,290)	(66,290)
Net income (loss)	(3,441)	(712)	9,039	3,397	31,884	(2,457)	(66,290)	(28,580)

Segment Footnote - Consolidated Statement Of Financial Position

Citizens Energy Group and Subsidiary, Indianapolis, Indiana
(In Thousands)

	At September 30, 2008							
	Citizens Gas	Steam	Chilled Water	Oil	Resources	Other	Disc Ops	**Total**
Assets								
Property, Plant and Equipment	309,825	48,590	53,459	1,558	8,967	-	-	**422,399**
Intangibles	-	30,497	87,683	-	-	-	-	**118,180**
Investments	9,530	3,873	5,042	-	117,988	-	-	**136,433**
Current Assets	199,122	15,970	(935)	5,849	11,764	5,207	11,958	**248,935**
Deferred Charges and Other Non-Current Assets	35,829	1,810	3,173	10	-	-	2,232	**43,054**
Total Assets	554,306	100,740	148,422	7,417	138,719	5,207	14,190	**969,001**
Capitalization and Liabilities								
Retained Earnings and Accumulated OCI	26,981	23,356	52,408	5,908	132,194	4,882	(18,978)	**226,751**
Long-Term Debt	330,492	62,865	81,946	-	4,256	-	-	**479,559**
Retirement Benefit and Other Long-Term Liabilities	24,903	1,621	1,014	82	-	-	31,592	**59,212**
Current Liabilities	171,930	12,898	13,054	1,427	2,269	325	1,576	**203,479**
Total Capitalization and Liabilities	554,306	100,740	148,422	7,417	138,719	5,207	14,190	**969,001**

Segment Footnote - Consolidated Statement Of Financial Position

Citizens Energy Group and Subsidiary, Indianapolis, Indiana
(In Thousands)

	At September 30, 2007							
	Citizens Gas	Steam	Chilled Water	Oil	Resources	Other	Disc Ops	Total
Assets								
Property, Plant and Equipment	301,912	43,061	35,839	1,456	8,896	-	-	391,164
Intangibles	-	31,668	90,922	-	-	-	-	122,590
Investments	5,958	3,296	4,290	-	107,869	-	-	121,413
Current Assets	199,576	19,563	10,952	5,104	33,560	5,275	(9,598)	264,432
Deferred Charges and Other Non-Current Assets	28,943	1,372	3,136	10	-	-	(140)	33,321
Total Assets	536,389	98,960	145,139	6,570	150,325	5,275	(9,738)	932,920
Capitalization and Liabilities								
Retained Earnings and Accumulated OCI	35,578	23,089	48,699	5,326	144,285	2,818	(42,990)	216,805
Long-Term Debt	318,942	64,789	84,452	-	4,625	-	-	472,808
Retirement Benefit and Other Long-Term Liabilities	27,956	771	667	32	-	-	28,853	58,279
Current Liabilities	153,913	10,311	11,321	1,212	1,415	2,457	4,399	185,028
Total Capitalization and Liabilities	536,389	98,960	145,139	6,570	150,325	5,275	(9,738)	932,920

Capital Expenditures

	Capital Expenditures (In Thousands) 2008	2007
Citizens Gas	$28,451	$28,352
Steam	8,143	9,247
Chilled Water	19,192	4,543
Oil	510	443
Resources and Other	497	1,118
Total	$56,793	$43,703

Additional Citizens Thermal Financial Information

Additional Citizens Thermal (Steam and Chilled Water) financial information for fiscal years ended September 30, 2008 and 2007 is summarized as follows:

	(In Thousands) 2008	2007
Net Income	$ 4,458	$ 8,327
Total Liabilities	$ 173,398	$ 172,311
Owners' Equity	$ 75,764	$ 71,788
Interest on Long-Term Debt	$ 8,026	$ 7,167
Cash Flow Information:		
Beginning Cash Position	$ 23,337	$ 31,326
Cash from Operations	13,870	8,042
Cash to Investments	(27,821)	(11,162)
Cash to Financings	(5,099)	(4,869)
Ending Cash Position	$ 4,287	$ 23,337

9. Manufacturing Discontinuation Of Production And Related Asset Retirement Obligations

The Manufacturing Division, d.b.a. Indianapolis Coke, faced substantial challenges in recent years including significant financial losses during the 2007 and prior fiscal year; a declining U.S. coke market coupled with increasing foreign competition; and an inability to find a buyer for the division in spite of a protracted effort in that regard. After several months of considerable review of the facts, issues, and impacts, the Board of Directors voted on April 11, 2007, to cease production at the Manufacturing plant and cease operations as soon as reasonably practicable. On July 13, 2007, all coke-making and production operations ceased at the plant.

The financial impacts of plant discontinuation are substantial. The plant employed approximately 300 workers. Eligible employees received a termination benefit package. Such termination benefits for eligible employees are reflected in the accompanying financial statements in accordance with FAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. While the level of operating losses experienced during fiscal year 2007 have ceased, the costs of decommissioning, demolition and remediation will continue for several years. Current estimates of closure, demolition and remediation costs are included in the financial statements as part of the asset retirement obligation. Plant in service, capitalized asset retirement cost and construction work in process were deemed fully impaired (exclusive of salvage value) and written off in March, 2007, through a $35.8 million charge to depreciation expense.

Prior to cessation of operations, the Manufacturing segment operated a manufactured gas and coke oven facility located in Indianapolis, Indiana that provided manufactured gas to the Steam and Chilled Water divisions, and sold foundry, blast furnace and other industrial coke and other coke oven by-products to industrial users located primarily in the Midwest. All surplus manufactured gas was transferred to the Steam and Chilled Water divisions at a transfer price approved by the IURC. The major classes of assets and liabilities of discontinued operations are presented in the segment Consolidated Statements of Financial Position for fiscal years ended September 30, 2008 and 2007 in Note 8.

The operating results of the Manufacturing segment for fiscal years ended September 30, 2008 and 2007 are as follows:

	(In Thousands) 2008	2007
Revenue	$ 12,761	$ 85,265
Operating expenses	18,210	151,555
Loss from discontinued operations	$ (5,449)	$(66,290)

The Trust performed a review of its asset retirement obligations under SFAS 143 related to the site restoration and decommissioning costs of the manufacturing facility. These obligations, which are inclusive of quantifiable and non-quantifiable obligations, relate to the environmental laws requiring the Trust to restore the facility to a "brown site" status upon closure of the facility. Changes in the liability due to the passage of time (accretion) are charged to the Consolidated Statements of Operations. Changes in the liability are also made periodically due to revisions to either the timing or amount of the estimated cash flows. These types of changes are then adjusted to the carrying amount of the related asset under most circumstances. Due to the decision to cease production at the Manufacturing plant, the company revised its estimates in both the timing and amount of the estimated cash flows in March, 2007. However, because this coincided with the impairment write-down of the plant assets, this adjustment was charged to capitalized asset retirement cost and then immediately written off through a charge to depreciation expense. The net result of this adjustment was an $11.1 million increase to the asset retirement obligation liability in March, 2007, relating to increased estimates for eventual environmental remediation. This adjustment, and the activity in fiscal years 2007 and 2008 for the asset retirement obligation liability are as follows:

	(In Thousands)
Asset retirement obligation at 9/30/06	$ 11,070
Accretion expense	1,998
Change in cash flows (March, 2007)	11,154
Asset retirement obligation at 9/30/07	24,222
Accretion expense	2,907
Asset retirement obligation at 9/30/08	$ 27,129

10. Derivatives And Hedging

The Trust's Price Volatility Mitigation Policy (PVMP) sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. The Trust's objectives for using derivatives are to decrease the volatility associated with fluctuating natural gas prices. The Trust enters into natural gas options purchased and sold on the New York Mercantile Exchange (NYMEX). These instruments, in conjunction with physical gas supply contracts, are designated to cover estimated gas customer requirements. In accordance with SFAS 133, such energy contracts, to the extent they are not considered "normal" as defined by SFAS 133, are recognized at fair value as derivative assets or liabilities on the Consolidated 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. At September 30, 2008, these derivatives had a notional amount of $12.1 million and a fair value of $5.5 million. At September 30, 2007, these derivatives had a notional amount of $2.8 million and a fair value of $2.9 million.

The Trust entered into a weather hedge contract in 2007, whereby the Trust mitigated the risk of revenue loss from extreme fluctuations in winter weather, measured in degree-days. The agreement produced proceeds of $2.5 million in 2007, which was recorded as other Gas revenues in the Consolidated Statements of Operations. The Trust did not enter into such a contract in 2008, and has not secured a weather hedge for fiscal year 2009. Weather hedges are not subject to SFAS 133 and therefore are accounted for on an accrual rather than a market value basis.

11. Commitments And Contingencies

a. Environmental Contingencies

The Trust is subject to various environmental laws and regulations and believes it is in compliance with existing federal, state and local statutes, ordinances, rules and regulations governing environmental matters. The Trust has no way of estimating the enactment or promulgation of future environmental laws and regulations.

b. Legal Contingencies

The Trust is 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 of the Trust.

In July, 2004, the Trust filed a declaratory judgment action in the Marion County Indiana Environmental Court seeking an order that certain insurance policies owned by the Trust dating back to 1952 would indemnify the Trust for possible future environmental remediation at the Prospect Street coke plant and the former coke plant located on Langsdale Avenue, both in Indianapolis. Fourteen settlement letters were sent to various insurers on or about March 9, 2006, proposing settlements totaling $79.4 million. An estimate of the eventual outcome of these proceedings cannot be made at this time.

c. Leases

The Trust has entered into operating leases for storage of natural gas at various sites and for miscellaneous equipment. Lease expenses were $11.7 million and $13.1 million for the years ended September 30, 2008 and 2007, respectively. Future minimum lease payments under noncancelable operating leases as of September 30, 2008 are as follows:

	(In Millions)
2009	$ 11.6
2010	11.2
2011	6.3
2012	0.5
2013	0.5
Thereafter	-
Total minimum lease payments	$ 30.1

Independent Auditors' Report

To the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, a Municipal Corporation of the State of Indiana, doing business as Citizens Energy Group:

We have audited the accompanying consolidated statement of financial position of Citizens Energy Group and Subsidiary (the "Company") as of September 30, 2008, and the related consolidated statements of operations, equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company for the year ended September 30, 2007 were audited by other auditors whose report, dated December 10, 2007, except for the last sentence in Note 1.R, as to which the date is March 7, 2008, expressed an unqualified opinion on those statements (which report includes an explanatory paragraph referring to the Company's change in the manner in which it accounts for defined benefit and postretirement plans and the Company's restated financial statements in 2007).

We conducted our audit 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such 2008 consolidated financial statements present fairly, in all material respects, the financial position of the Citizens Energy Group and Subsidiary as of September 30, 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

December 15, 2008

Report Of Independent Auditors

To the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis, a Municipal Corporation of the State of Indiana, doing business as Citizens Gas & Coke Utility.

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of operations, cash flows and equity present fairly, in all material respects, the financial position of Citizens Gas & Coke Utility and its subsidiaries at September 30, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 7 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans effective September 30, 2007. The Company also restated its 2007 consolidated financial statements.

PricewaterhouseCoopers LLP

December 10, 2007, except for the last sentence in Note 1.R, as to which the date is March 7, 2008

Indianapolis, Indiana

Report Of Management

The Trust has prepared the financial statements and related financial information included in this report. Management has the primary responsibility for the integrity of the financial statements and other financial information included therein, and for ascertaining that the data accurately reflect the financial position and results of operations of the Trust. The financial statements were prepared in accordance with generally accepted accounting principles and necessarily included estimates and judgments with appropriate consideration to materiality. Financial information included elsewhere in this annual report is consistent with the financial statements.

The Trust maintains a system of internal accounting controls to provide reasonable assurance that assets are safe-guarded and that the books and records reflect the authorized transactions of the Trust. Limitations exist in any system of internal control based upon the recognition that the cost of the system should not exceed the benefits derived. Management believes its system of internal accounting controls, augmented by its internal auditing function, appropriately balances the cost/benefit relationship.

The Trust's independent auditors provide an independent objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. As part of this audit, they regularly evaluate the system of internal accounting control and perform tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements.

The Executive Committee of the Board of Directors, comprised of three Directors, none of whom is an employee of the Trust, serves as the audit committee. The committee meets periodically with management, the internal auditors and the independent auditors in connection with its review of matters pertaining to the Trust's financial statements, the internal audit program, and the services of the independent auditors.

We believe that these policies and procedures provide reasonable assurance that our operations are conducted in conformity with appropriate statutory requirements and with a high standard of business conduct.

John R. Brehm

Senior Vice President & Chief Financial Officer

Board of Directors - Board of Trustee - Executive Management

Board of Trustees:
(Left to Right:) ***Board Vice President Fred D. Scott****, Private Practice of Law;* ***Board Secretary Dr. Gerald L. Bepko****, Trustee's Professor Indiana University School of Law;* ***Board President Daniel C. Appel****, President, Gregory & Appel Insurance;* ***Kathryn Betley****, co-owner, Romancing the Seasons;* ***Dan Evans****, President and CEO, Clarian Health Partners.*

Board of Directors:
(Left to Right:) ***Anne Nobles****, Vice President, Chief Compliance Officer, Eli Lilly and Co.;* ***Board Treasurer Lawrence A. O'Connor, Jr.****, Retired President, Bank One, Indiana;* ***Board Vice President/Vice Chairwoman Martha D. Lamkin****, Retired President and CEO, Lumina Foundation for Education;* ***James M. McClelland****, President, Goodwill Industries of Central Indiana, Inc.;* ***Board Secretary Dorothy J. Jones****, President, BOS Community Development Corp.;* ***Board President, James A. Wade****, Chairman and CEO, R.W. Armstrong & Associates;* ***Anita J. Harden****, Retired President, Community Hospital East.*

Officers:
(Left to Right:) ***Robert Hummel****, Vice President, Human Resources;* ***Andrew Proctor****, Vice President Customer and Information Services;* **Lindsay Lindgren***, Vice President, Gas & Steam Operations;* ***M. Jean Richcreek****, Senior Vice President, Chief Administrative Officer;* ***John Brehm****, Senior Vice President & Chief Financial Officer;* ***Carey Lykins****, President & Chief Executive Officer;* ***William Tracy****, Senior Vice President, Operations;* ***Michael Strohl****, Vice President, Market Development;* ***Yvonne Perkins****, Vice President, Community Relations;* ***John Whitaker****, Senior Vice President, Corporate and Legal Affairs;* ***Jeffrey Harrison****, Vice President, Engineering and Facilities Management.*

Executive Support Team:
(Left to Right:) ***Barb Smith****, General Manager Strategic Growth Initiatives;* ***Aaron Johnson****, Associate Counsel;* ***LaTona Prentice****, Executive Director, Regulatory Affairs;* ***David Toombs****, General Manager, Steam Operations;* ***Blaire Daugherty****, Executive Director & Controller;* ***Chris Braun****, General Manager, Gas Operations; and* ***Kristine Kuhn****, Director, Internal Audit; (Not pictured:)* ***Jamie Dillard****, General Manager, Project Engineering.*

Citizens Energy Group has been designated a Green Business by the Greater Indianapolis Chamber of Commerce. As such, the company pledges to continually work toward environmentally safe and sustainable business practices and operations to ensure that the greater Indianapolis region is environmentally healthy and viable.

In producing this report, we took steps to minimize environmental impacts, promote supplier diversity, and support businesses in our utility service territory.

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citizens energy group™

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