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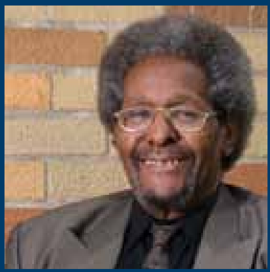

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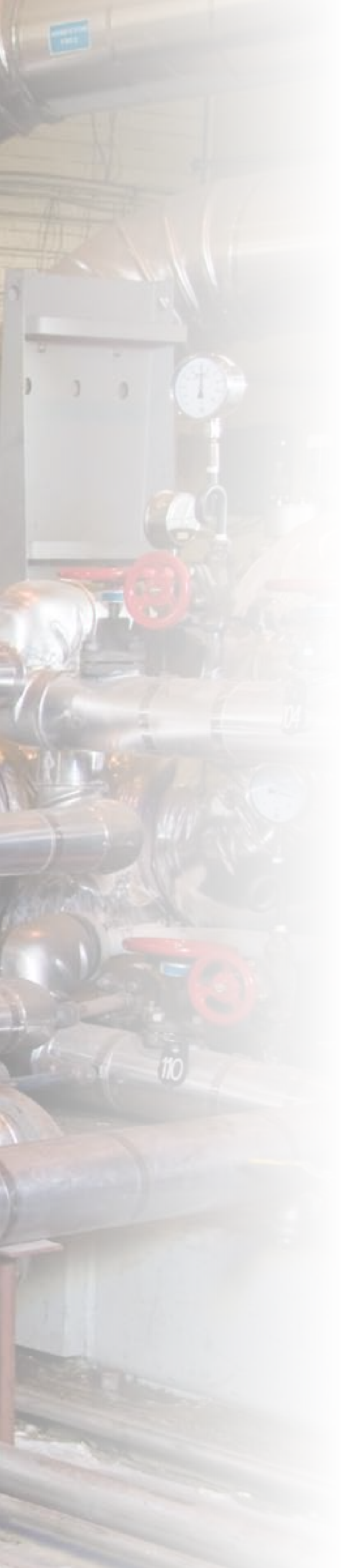

Trust Profile

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 265,000 customers in and around Indianapolis.
- **Citizens Thermal** – District steam heating and chilled water cooling provider serving businesses, industrial and institutional facilities across the Downtown Indianapolis area.
- **Citizens Oil** – Producer of oil in Greene County, Indiana.
- **Citizens Resources (Resources)** – Resources includes both affiliate joint venture interests, the most significant of which is ProLiance Holdings, LLC (see Note 3) as well as several wholly-owned subsidiaries, one of which (Westfield Gas) is operated as a regulated natural gas distribution utility.

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.

2009 Highlights (In Thousands)	**2009**	2008
Operating Revenues	**$ 555,225**	$ 542,443
Operating Expenses	**525,289**	509,555
Operating Income	**29,936**	32,888
Other Income (Expense), Net	**(1,461)**	(2,820)
Equity in Earnings of Affiliates	**676**	25,330
Interest Charges	**(28,051)**	(30,062)
Income from Continuing Operations	**1,100**	25,336
Loss from Discontinued Operations	**(7,214)**	(5,449)
Net Income (Loss)	**$ (6,114)**	$ 19,887

Key Operating Statistics	**2009**	2008
Gas Delivered (MDth) – Marion County	**47,297**	48,668
Impact of Weather Compared to Normal	**-4.64%**	-6.03%
Impact of Weather Compared to Prior Year	**1.48%**	2.49%
Gas Customers (Average)	**265,703**	266,409*
Gas Capital Expenditures (in Millions)	**$ 23.1**	$ 28.5
Avg. Residential Gas Customer Bill (% below 13 City Avg)	**-6.8%**	-18.3%*
Steam Customers (Average)	**198**	204
Steam Sold (MDth)	**6,707**	7,144
Steam Capital Expenditures (in Millions)	**$ 4.7**	$ 8.1
Chilled Water Customers (Average)	**47**	46
Chilled Water Sold (Mton Hours)	**150,837**	138,882
Chilled Water Capital Expenditures (in Millions)	**$ 2.4**	$ 19.2
Oil Sold (Barrels)	**94,134**	93,548
Oil Revenue per Barrel	**$ 43**	$ 85
Oil Capital Expenditures (in Millions)	**$ 0.1**	$ 0.5
Resources Capital Expenditures (in Millions)	**$ 0.1**	$ 0.5

* 2008 Gas Customers (Average) and 2008 Avg. Residential Gas Customer Bill (% below 13 City Avg) were revised to conform to the 2009 presentation.

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citizens
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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.

Letter from Carey Lykins

President & CEO
Citizens Energy Group

To All Trust Stakeholders:

During difficult economic times, it is easy for businesses to lose focus on long-term obligations as they struggle to meet pressing financial challenges. At Citizens Energy Group, our Public Charitable Trust ownership structure allows us to meet immediate challenges typical during recessions, while maintaining our focus on long-term commitments such as a community investment program that enhances quality of life in our community.

In 2009, Citizens faced three primary financial challenges presented by the recession:

- A growing number of customers not being able to pay their bills due to a sharp increase in unemployment.
- Rising borrowing costs due to the near collapse of the U.S. financial system; and
- A funding shortfall in our company pension plan caused by the decline in the stock market.

We met each of these challenges in ways that did not forsake our commitments. First, as the credit crisis was developing we took steps to restructure our debt, which helped reduce what would have been a very steep increase in borrowing costs. Second, we held the line on our operating costs by implementing a pay freeze across the organization through 2010. At the same time, we maintained our commitment to our retirees by filling a $10 million funding shortfall in our pension program.

Keeping Energy Affordable

Amidst these financial challenges, we worked with government officials and other community partners to maximize energy assistance to customers in need. Last year, we helped ensure about 30,000 customers received nearly $13 million in energy assistance, including more than $1.6 million directly from Citizens. This assistance allowed thousands of customers to maintain gas service throughout the winter.

As we worked diligently to assist families in need, we also expanded efforts to help customers conserve energy through our Citizens Energy Savers program. In its second year, Citizens Energy Savers provided more than 15,000 conservation measures that reduced energy consumption by 1.3 million therms, which is equivalent to the annual energy use of about 1,400 homes. The energy saving measures included rebates towards the purchase of high efficiency natural gas furnaces, boilers and water heaters, and low-flow shower and sink aerators targeted to apartments.

Carey Lykins
President & CEO
Citizens Energy Group

Operational Excellence

For the seventh straight year, Citizens Gas was ranked among the top five utilities in the Midwest for customer satisfaction in an annual customer survey by J.D. Power & Associates. Meanwhile, a record 100 percent of Citizens Thermal customers indicated they were satisfied with their service in a survey conducted by Market Strategies International.

In addition, Citizens continues to be one of the top performers among peer group companies for operational metrics such as low rates, and operations and maintenance costs. Citizens Thermal continues to show an increasing number of customers that its steam and chilled water services are more cost-effective than operating their own heating and air conditioning equipment.

We renewed our focus on environmental leadership in 2009 by adopting a companywide environmental policy that stresses excellence, compliance, continual improvement, training, accountability, communications and partnerships. In addition to helping our customers conserve energy while minimizing the environmental footprint of our operations, Citizens is supporting various community initiatives to promote pollution prevention and sustainability.

Community Investment

Our employees again showed they are community leaders through donation of their time and money to various organizations and causes. As a Pace Setter Company, our employees donated nearly $300,000 to the United Way Campaign last year. We are thrilled that their contributions were recognized by the United Way with one of their first ever Spirit United Awards.

Through a $2 million loan portfolio, our Community Investment Program is supporting neighborhood and economic development initiatives that are revitalizing various parts of the city. Citizens also makes contributions to a wide range of non-profit organizations focused on quality education, diversity and the arts.

We are very excited about recently taking the first steps toward realizing our Prospect Vision for the redevelopment of our former coke manufacturing plant site and nearby parcels on the southeast side. Realizing this vision started with donating 26 acres of vacant land along Pleasant Run Parkway to Play Ball Indiana for their planned development of a community sports complex they are calling Citizens Field of Dreams. We believe Citizens Field of Dreams will be a place where the dreams of young people will be born and the dreams of the southeast side community realized.

Expanding Our Mission

In response to a request for expressions of interest from Mayor Greg Ballard to more efficiently and effectively operate the City's water and wastewater systems, Citizens submitted a proposal in August to transfer both systems to the Public Charitable Trust. Our interest in transferring the water and wastewater systems to Citizens is based on the Trust's mission to deliver value and improve quality of life for the people of Indianapolis.

Citizens' utility expertise and Trust structure make it the best choice to own and operate the City's water and wastewater systems. No other entity has as much experience operating utilities in Central Indiana as Citizens. Our Trust structure means our non-partisan community based Board of Directors manages the company only for the benefit of customers and the community, rather than having to focus on payments to shareholders as investor owned utilities must do. This community-focused business

model has made Citizens an industry leader for customer satisfaction while ensuring financial stability for the utilities for more than 100 years.

Initial studies indicate that combining the water and wastewater systems with Citizens' gas, steam and chilled water systems would achieve operating coordination and cost savings that would result in higher quality service at significantly more reasonable rates than any other option available to the City.

Transferring the water and wastewater assets to Citizens also will provide the City with funding that can be used for badly needed infrastructure projects like improvements to streets and sidewalks. Our offer to the City provides a fair price for the assets, while protecting the needs of all utility customers.

We believe no other entity can provide these advantages to the City's utility customers while retaining local control of these valuable community assets. We look forward to working with Mayor Ballard, other elected officials and regulators to complete the transfer of the water and wastewater assets to Citizens and realize benefits for utility customers throughout Central Indiana.

While 2009 presented many formidable challenges, Citizens remains focused on realizing our vision to fulfill the promise of the Trust to serve our customers and communities with unparalleled excellence and integrity. Thank you for your continued loyalty to Citizens Energy Group.

Sincerely,

Carey Lykins

Carey Lykins

Focused on Customers in Need

A retiree living on fixed income, Kenneth Washington knew he would not be able to keep up with his gas bill for the coming winter.

Still grieving after the death of her husband, Paula Deering was faced with the prospect of having to pay a large deposit after being removed from the Budget Plan due to a past due bill.

When Mr. Washington and Mrs. Deering turned to Citizens Gas for help, they found employees focused on helping customers in need.

"When you're retired your income doesn't go up, so it's pretty tough when your bills go up. Fortunately, Citizens Gas and Community Action provided me the help I needed to get through the winter. I sure appreciate the help they provided. I might have lost my heat without that help," Mr. Washington said.

Mr. Washington's plight is increasingly common during the current economic recession. Rhonda Harper, Customer Service Manager at Citizens, worked with Community Action of Greater Indianapolis to provide assistance that kept Mr. Washington warm and comfortable by keeping his gas service operating throughout last winter, when soaring natural gas prices beyond Citizens' control caused a spike in winter heating bills.

***Rhonda Harper**, Manager, Customer Service*

Citizens Gas customer Kenneth Washington.

For Mrs. Deering, it was the compassion shown by Judy Jordan, Citizens Business Call Center Representative, that made a difference during one of the most difficult times of her life.

"Our lives and our business were turned upside down when my husband John was told in November (2008) that he had two months to live. John died in January and I had forgotten to pay the gas bill for our main dry cleaning location. I spoke with Judy Jordan at Citizens and she ensured I did not have to pay a large deposit for falling behind on the bill. She also set up my account on automatic bank deduction. I know from owning a business that businesses get a lot of complaints, so I thought it was important to say thanks to Citizens Gas for their help," said Mrs. Deering.

In 2009, Citizens worked with community partners to maximize assistance to customers in need. The $13 million provided to about 30,000 customers represented a 35 percent increase in the number of people helped and a 55 percent increase in funding provided. Of Citizens' $1.6 million in assistance funds, about $1 million was distributed as grants to keep customers from having their service disconnected. We also established flexible payment arrangements with 69,000 customers to help ensure they remained connected to the system.

Keeping energy affordable for all customers will always be our focus at Citizens.

***Judy Jordan**, Business Call Center Representative*

Paula Deering, owner of Deering Cleaners.

Focused on Conservation

From homeowners looking to replace an old furnace to a school administrator needing to hold the line in an increasingly tight budget, our Citizens Energy Savers program is focused on helping customers lower their monthly energy costs.

Citizens Energy Savers provides residential and business customers rebates toward the purchase of programmable thermostats and high efficiency gas furnaces, boilers and water heaters. Citizens Energy Savers Business Custom Incentive Program offers grants to help businesses fund energy-efficiency projects.

Energy use is one of the biggest expense items for every school system, so conservation projects are critical to helping school officials manage their budgets. At Decatur Township Schools, the 10-year-old Physical Education Building was facing increasing energy costs due to moisture control problems that are typical in buildings that house locker rooms.

Thanks to some creative thinking by the school system's facilities personnel, and energy efficiency incentive funding from Citizens Gas, the school system solved the moisture problem while lowering its energy costs.

School facility personnel knew the best solution for solving the moisture problem was additional ventilation with outside air. Of course, this would mean additional natural gas heating costs. Greg Spencer, Supervisor of Maintenance with Decatur Township Schools, in cooperation with Perfection Services came up with the idea of installing heat recovery wheels in the building's new heating, ventilation and air conditioning equipment to capture heat from air leaving the building and put it into fresh air used for ventilation. This solved the moisture problem while helping the school system hold down heating costs.

A nearly $9,000 commercial energy efficiency incentive from the Citizens Energy Savers Program helped the school system pay for a new digital control system for the HVAC equipment, which in turn yielded additional energy savings.

"In these difficult economic times, these types of grants help us to conserve energy costs in order to direct more money to the classroom," said Susan Adams, Director of Facilities for Decatur Township Schools.

For homeowners Ed and Gail Chandler, the decision to stick with natural gas heat came down to comfort. "Our furnace was a high efficiency model when we put it in 20 years ago. We wanted to stick with natural gas because we like the feel of it," said Ed Chandler.

The Chandlers are now looking forward to a comfortable home with lower heating bills this winter thanks to a new 95 percent efficient natural gas furnace and a programmable thermostat. The budget impact of their energy efficiency upgrades was made a little easier by a $200 rebate on the furnace and a $20 rebate on the thermostat from Citizens Energy Savers.

Citizens is helping customers more efficiently enjoy the comfort and convenience of clean-burning natural gas because we know it improves their quality of life and the quality of our environment.

Citizens Gas customers Ed and Gail Chandler.

Mark Falahee, Business Development V.P./ Partner at Perfection Group; Jeff Sinclair, Industrial Sales Consultant at Citizens; Donald Stinson, Superintendent MSD of Decatur Township; and Greg Spencer, Maintenance Supervisor MSD of Decatur Township, in the energy efficient locker room at Decatur Township Schools.


Decatur Central
Hawks

Focused on Excellence

While some energy companies have seen important measures like reliability and efficiency slip during tough economic times, Citizens has kept its focus on continuing more than 100 years of operational excellence.

Over the past 20 years, Citizens has worked to diversify its natural gas supply sources in order to find the most reliable and affordable gas for its customers. Once reliant on one interstate pipeline drawing supply from Texas, Oklahoma and Kansas, Citizens added a second supplier in 1989 that drew supply from the Gulf of Mexico. In 2006, Citizens and business partner ProLiance Holdings, LLC built Heartland Pipeline in southern Indiana to access a third interstate pipeline drawing supply from the western U.S. and Canada. Since Heartland opened in 2006, it has saved Citizens customers more than $10 million, primarily through access to more affordable gas supplies.

This year Citizens added a fourth potential supplier when it built an interconnection with the Rockies Express Pipeline that stretches from Wyoming to eastern Ohio. While it is still unclear how much supply Citizens will draw from Rockies Express, it provides another opportunity for Citizens to shop for the best priced gas for its customers.

Affordable gas supply is just one of the measures in which Citizens Gas excelled in a recent benchmark study comparing the company to 10 similar sized utilities. The study, in cooperation with the Indiana Office of Utility Consumer Counselor, found that Citizens Gas was ranked either first or second among peer group companies across operational, financial and customer satisfaction categories.

At Citizens Thermal, an increasing focus on operating efficiency is seen in plant improvement projects as well as employees forming teams to improve work processes. To reduce operating costs and improve utilization of high-pressure steam, Citizens recently installed two 1.7 megawatt topping turbines at its Perry K Steam Plant. Depending on customer steam demand and plant electrical load, these units are operated to realize a reduction in purchased electrical power and demand charges while optimizing the use of high pressure steam through cogeneration.

While plant improvements were under way at Perry K, Thermal employees formed two teams this past year to implement process improvement efforts utilizing the Kaizen process. A steam operations team found 19 ways to reduce parts inventory costs while a chilled water team found 20 ways to reduce energy costs through operational efficiency.

At Citizens Gas and Citizens Thermal, our increasing focus on improved efficiency and operating cost reductions has not come at the expense of safety, reliability and outstanding customer service.

***Mike Williams**, Operations Auxiliary Operator, and **John Havard**, Project Manager, ensured the new topping turbines at Perry K provided efficiency improvements to the plant.*

Maggie Thompson, Intern, Engineering and Construction, and Alan Barker, Construction Field Coordinator.

Focused on Community

In May 2011 when the first pitch is thrown at the Citizens Field of Dreams, it will represent the realization of a dream for the people at Play Ball Indiana and for southeast side neighborhood leaders like Rachel Cooper.

Play Ball Indiana, a non-profit organization committed to encouraging inner city youth to play baseball, will build a multi-use community sports complex on 26 acres of land located along Pleasant Run Parkway on the southeast side. The $6 million sports complex will bear the Citizens name because the site was donated by Citizens Energy Group.

“Play Ball Indiana is extremely grateful to Citizens Energy Group for its generous donation of land. Citizens Field of Dreams will enable us to provide a safe place for Indianapolis youth to participate in healthy athletic competition and develop a passion for the history and tradition of America’s pastime,” said Mike Lennox, Executive Director of Play Ball Indiana. “We envision a state-of-the-art “sandlot” that will serve the surrounding neighborhoods and become a central hub for our summer RBI league. We also envision the facility will be used for year-round clinics and by community organizations and schools. With this donation, Play Ball Indiana will be empowered to provide life-changing alternatives for Indianapolis’ inner-city youth.”

For Rachel Cooper, leader of the Southeast Community Organization, the sports complex will be a place where dreams are born. “This has to be one of the most exciting things to happen in our neighborhood in my lifetime. We had mixed emotions when the gas company left our neighborhood, but now we can relax and enjoy our youth. They are so important to us. God takes care of those who believe. Citizens has always been one of our greatest partners,” said Cooper.

Citizens Field of Dreams is just the first step toward realizing Citizens Prospect Vision for revitalizing the neighborhoods near our former Indianapolis Coke Plant, which was closed in 2007. Our Prospect Vision is intended to promote recreation, neighborhood revitalization and job creation over the next 20 years on the southeast side.

Even during difficult economic times, Citizens remains focused on long-term investments like our Prospect Vision because we know these efforts improve quality of life in our community. From employees volunteering for community organizations to the company donating funds to non-profit organizations, Citizens is committed to making our community a better place to live, work and play.

Milt Thompson, Chairman Emeritus with Play Ball Indiana (PBI); Julie Ragsdale, PBI Board President; Reid Duffy, announcer for the Indianapolis Indians; Jan Diggins, Manager, Community Redevelopment at Citizens Energy Group; George Foster, Hall of Fame player for the Cincinnati Reds; and Mike Lennox, Executive Director, PBI; celebrate Citizens Field of Dreams.


CITIZENS
FIELD OF DREAMS
EST. 2010
INDIANAPOLIS

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). Resources includes both affiliate joint venture interests, the most significant of which is ProLiance Holdings, LLC (see Note 3) as well as several wholly-owned subsidiaries, one of which (Westfield Gas) is operated as a regulated natural gas distribution utility. 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 reported as Discontinued Operations.

The Trust reported consolidated net loss of $6.1 million in 2009 as compared to net income of $19.9 million in the prior year. The $26.0 million reduction in net income is summarized as follows:

	($ In Millions)		
	2009	2008	Change
Operating Revenues:			
Utility	**$ 514.9**	$ 500.0	$ 14.9
Non-Utility	**40.3**	42.5	(2.2)
Total Operating Revenues	**555.2**	542.5	12.7
Operating Expenses:			
Cost of Goods Sold:			
Utility	**347.2**	339.6	7.6
Non-Utility	**11.1**	10.9	.2
Total Cost of Goods Sold	**358.3**	350.5	7.8
Other Operating Expenses	**167.0**	159.1	7.9
Total Operating Expenses	**525.3**	509.6	15.7
Total Operating Income	**29.9**	32.9	(3.0)
Other Income (Expense), Net	**(1.5)**	(2.8)	1.3
Equity in Earnings of Affiliates	**.7**	25.3	(24.6)
Interest Charges	**(28.0)**	(30.1)	2.1
Income from Continuing Operations	**1.1**	25.3	(24.2)
Loss from Discontinued Operations	**(7.2)**	(5.4)	(1.8)
Net Income (Loss)	**$ (6.1)**	$ 19.9	$ (26.0)

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 $14.9 million to $514.9 million in 2009, from $500.0 million in 2008 due to the following:

Citizens Gas - increase of $9.0 million. Total operating revenues for Citizens Gas increased to $438.0 million in 2009 versus $429.0 million in 2008, on volume of gas sold and transported of 47.3 million dekatherms in 2009 versus 48.7 million dekatherms in 2008. Base rate revenue increased $19.2 million due to an increase in base rates effective September 2008 (see Note 1.N.a of the consolidated financial statements for further details). Revenue from rate mechanisms for Decoupling and Normal Temperature Adjustment resulted in a combined decrease of $4.3 million compared to the same period in the prior year. Miscellaneous revenues decreased $1.4 million due to sales for resale of $0.7 million and refunds of $0.7 million in the 2008 period. Revenue further decreased by $4.5 million due to lower gas cost recovery revenues in 2009.

Steam Division – increase of $6.2 million. Total operating revenues for the Steam Division increased to $71.8 million in 2009 versus $65.6 million in 2008, on volume sales of 67.1 million therms in 2009 versus 71.4 million therms in 2008. Revenue increased $6.2 million due to increased fuel pass-through costs of $6.2 million and $3.4 million for general rate increases (see Note 1.N.a of the consolidated financial statements for further details), offset by a $1.8 million reduction due to the decline in therms sold and a $1.6 million reduction in sales of emission credits.

Resources; Westfield Gas – decrease of $0.3 million. Total operating revenues for Westfield Gas decreased to $5.1 million in 2009 versus $5.4 million in 2008. This decrease is primarily related to lower gas cost recovery revenue due to lower commodity prices. This decrease was slightly offset by higher volume sales resulting from more services, as Westfield Gas had 3,339 customers at September 30, 2009 versus 2,942 customers at September 30, 2008. Total dekatherms of gas sold in 2009 were 491.8 thousand versus 478.9 thousand in 2008.

Non-Utility Operating Revenues

Non-utility operating revenues decreased $2.2 million to $40.3 million in 2009, from $42.5 million in 2008 due to the following:

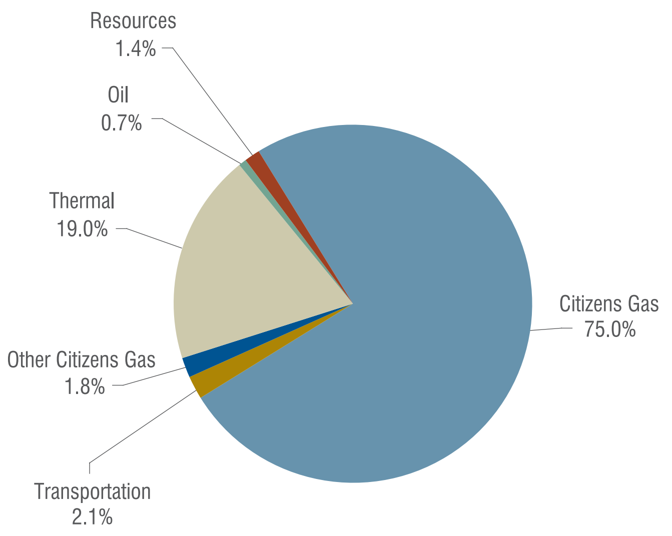
Chilled Water Division – increase of $2.6 million. Total operating revenues for the Chilled Water Division increased to $33.9 million in 2009 versus $31.3 million in 2008, on volume sales of 150.8 million ton hours in 2009 versus 138.9 million ton hours in 2008. The ton hour increase is attributable to increased sales from the Indianapolis Campus Energy facility.

Oil Division – decrease of $4.0 million. Total operating revenues for the Oil Division decreased to $4.0 million in 2009 versus $8.0 million in 2008. Revenue averaged $43 per barrel on production of 94 thousand barrels of oil in 2009 versus $85 per barrel on production of 94 thousand barrels of oil in 2008.

Resources; Citizens Mechanical Services (CMS) & Covance Laboratory Group (CLG) – decrease of $0.8 million. Total operating revenues for CMS decreased in 2009 to $1.8 million versus $3.2 million in 2008. This decrease was due to the sale of CMS on May 1, 2009. CLG, previously reported in the Chilled Water Division, had $0.6 million of revenues in 2009.

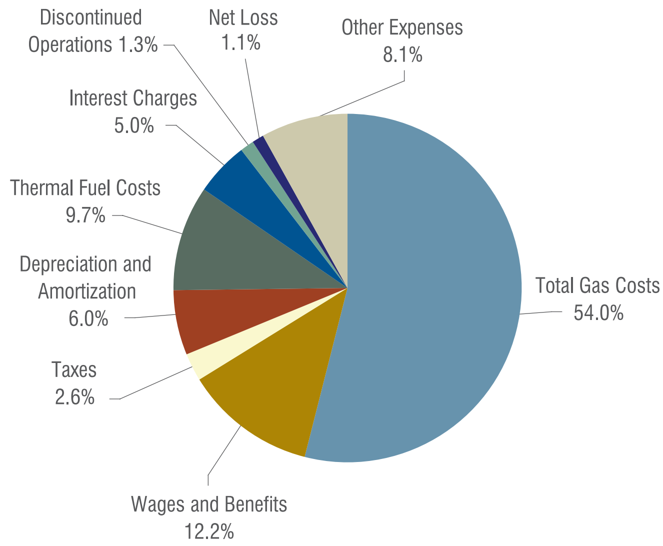
Source of 2009 Revenue Dollars

2009 Revenues = $ 555 million



Distribution of 2009 Revenue Dollars

2009 Distributions = $ 561 million



Utility Cost Of Goods Sold

Utility cost of goods sold increased $7.6 million to $347.2 million in 2009, from $339.6 million in 2008 due to the following:

Citizens Gas - decrease of $0.4 million. Total gas costs for Citizens Gas decreased to $299.2 million in 2009 versus $299.6 million in 2008. The weighted average cost of gas decreased 36.7 percent, from $9.33 per dekatherm in 2008 to $5.91 in 2009. The transition from higher market prices for natural gas in 2008 to lower market prices in 2009 created several offsetting impacts on expense recognition. Gas Cost Adjustments increased $29.8 million for 2009 compared to 2008. Storage transactions netted a $98.5 million increase, primarily the result of higher withdrawals at higher average cost during the November 2008 through March 2009 winter heating season offset by lower injections at lower average cost during the subsequent April through September 2009 storage refill season. This was offset by purchased gas delivered directly to customers and company use gas which decreased $128.7 million. Pricing for natural gas is driven by market factors.

Steam Division – increase of $8.4 million. Total cost of goods sold for the Steam Division increased to $44.4 million in 2009 versus $36.0 million in 2008. This increase was due to increased Fuel Cost Adjustments of $6.2 million compared to 2008, and higher purchased steam costs of $6.7 million due to a contractually scheduled price increase from the supplier and improved availability of purchased steam from the supplier, partially offset by decreased natural gas cost of $4.3 million due to lower price and consumption and lower miscellaneous fuel costs of $0.2 million as compared to 2008.

Resources; Westfield Gas – decrease of $0.4 million. Total cost of goods sold for Westfield Gas decreased to $3.6 million in 2009 versus $4.0 million in 2008. This decrease was due to lower average commodity prices, partially offset by higher sales due to customer growth compared to 2008.

Non-Utility Cost Of Goods Sold

Non-utility cost of goods sold increased $0.2 million to $11.1 million in 2009, from $10.9 million in 2008 due to the following:

Chilled Water Division – increase of $0.8 million. Total cost of goods sold for the Chilled Water Division increased to $10.4 million in 2009 versus $9.6 million in 2008. This increase was primarily due to an 8.6 percent increase in ton hours sold.

Resources; Citizens Mechanical Services (CMS) – decrease of $0.6 million. Total cost of goods sold for CMS decreased to $0.7 million in 2009 versus $1.3 million in 2008. This decrease was primarily due to the sale of CMS on May 1, 2009.

Other Operating Expenses

Other operating expenses increased $7.9 million to $167.0 million in 2009, from $159.1 million in 2008 due to the following:

Other Operations and Maintenance (O&M) – increase of $2.1 million. Other O&M by business segment for 2009 versus 2008 is as follows (in thousands):

	2009	2008	Change
Citizens Gas	**$ 38,710**	$ 37,818	$ 892
Steam	**15,100**	14,189	911
Chilled Water	**4,242**	3,844	398
Oil	**1,257**	1,154	103
Resources	**297**	516	(219)
Total Other O&M	**$ 59,606**	$ 57,521	$ 2,085

Citizens Gas includes increases of $1.7 million for increased pension and insurance costs and $1.4 million for maintenance expenditures, offset by decreased fuel costs of $1.8 million and lower wage costs of $0.4 million. Steam includes increases of $0.3 million for labor and $0.6 million for distribution expenses. The Chilled Water increase is primarily due to increased maintenance expenses. The Resources' decrease is primarily due to reduced customer incentive costs at Westfield Gas compared to 2008.

General and Administrative (G&A) – increase of $3.4 million. G&A by business segment for 2009 versus 2008 is as follows (in thousands):

	2009	2008	Change
Citizens Gas	**$ 43,037**	$ 41,472	$ 1,565
Steam	**7,936**	6,427	1,509
Chilled Water	**3,474**	3,240	234
Oil	**258**	203	55
Resources	**4,437**	4,411	26
Total G&A	**$ 59,142**	$ 55,753	$ 3,389

Citizens Gas includes increases of $1.3 million for uncollectible provision and $0.3 million for other miscellaneous costs. Steam includes increases of $0.9 million for corporate support costs, $0.5 million for health insurance and other benefit costs and $0.1 million for engineering consultant costs. The Chilled Water increase is primarily due to increased uncollectible provision.

Depreciation and Amortization – increase of $3.5 million. Depreciation and Amortization by business segment for 2009 versus 2008 is as follows (in thousands):

	2009	2008	Change
Citizens Gas	**$ 21,024**	$ 20,440	$ 584
Steam	**6,098**	3,785	2,313
Chilled Water	**5,555**	4,814	741
Oil	**436**	408	28
Resources	**640**	810	(170)
Total Depreciation & Amortization	**$ 33,753**	$ 30,257	$ 3,496

Steam increased by $2.0 million due to increased customer contract amortization compared to the prior period (see Notes 1.L and 1.M of the consolidated financial statements for additional information on the impairment and amortization of intangible customer contracts, respectively). The decrease in Resources of $0.2 million is due to the sale of CMS on May 1, 2009. The remaining net increase in depreciation and amortization of $1.7 million is due to capital additions.

Taxes – decrease of $1.1 million. Taxes by business segment for 2009 versus 2008 are as follows (in thousands):

	2009	2008	Change
Citizens Gas	**$ 11,081**	$ 11,841	$ (760)
Steam	**1,430**	1,416	14
Chilled Water	**1,401**	1,589	(188)
Oil	**88**	140	(52)
Resources	**459**	552	(93)
Total Taxes	**$ 14,459**	$ 15,538	$ (1,079)

The decrease in taxes is primarily due to reduced property taxes.

Other Income (Expense), Net

Other Income (Expense), Net – increase of $1.3 million. Interest income decreased $3.2 million in 2009 to $1.1 million from $4.3 million in 2008 due to lower interest rates. Other, net expense decreased $4.5 million to $(2.6) million in 2009 from $(7.1) million in 2008. This was primarily driven by differences in mark-to-market adjustments on Citizens Gas' derivatives of $4.6 million compared to the prior year period and decreased community investment and brand advertising expenses of $0.2 million, offset by a $0.3 million customer concession for a chilled water line and equipment in the current year period.

Equity In Earnings Of Affiliates

Equity in Earnings of Affiliates – decrease of $24.6 million. Equity in Earnings of Affiliates decreased $24.6 million to $0.7 million in 2009 from $25.3 million in 2008. This was due in part to a write down of an investment held by ProLiance Holdings, LLC (ProLiance), the gas marketing affiliate of Resources, which had a $12.9 million impact. In June, 2009 ProLiance wrote down its investment in Liberty Gas Storage, LLC, a joint venture between a subsidiary of ProLiance and a subsidiary of Sempra Energy. ProLiance is the minority member with a 25 percent interest, which it accounts for using the equity method (see Note 3 of the consolidated financial statements). Also contributing to the overall $24.6 million decrease was lower net margin from ProLiance's traditional lines of business in 2009 compared to 2008 of $11.6 million. Other affiliate earnings were $0.3 million lower in 2009 compared to 2008.

Interest Charges

Interest Charges – decrease of $2.1 million. Interest charges decreased $2.1 million to $28.0 million in 2009 from $30.1 million in 2008 primarily due to refunding auction rate bonds during 2008, lower interest rates on Citizens Gas' tax-exempt commercial paper and lower interest rates on customer deposits.

Discontinued Operations

Loss from Discontinued Operations (Manufacturing Division) – increase of $1.8 million. Loss from Discontinued Operations increased $1.8 million to $7.2 million in 2009 from $5.4 million in 2008. The $1.8 million increase in Loss from Discontinued Operations is primarily due to liquidation of salable inventory in the prior year period of $3.9 million partially offset by decreased decommissioning and administrative expenses of $2.1 million compared to 2008. See Note 9 of the consolidated financial statements for additional information on the discontinuation of the Manufacturing Division.

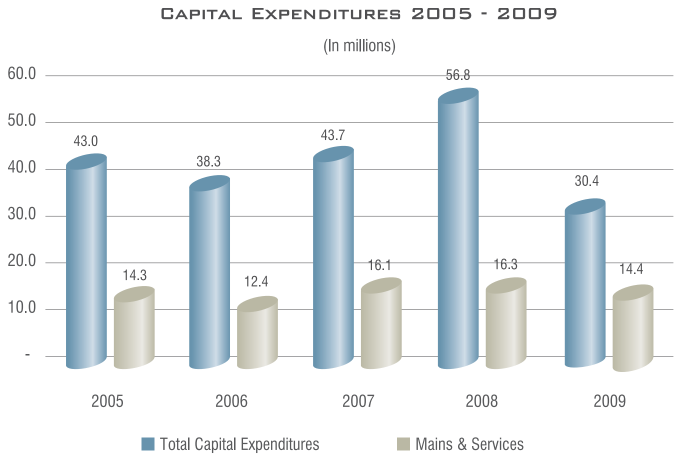
Liquidity And Capital Resources

The Trust utilizes long-term debt, short-term debt and internally generated funds to meet capital investment and working capital needs. In 2009, capital expenditures decreased to $30.4 million from $56.8 million in 2008. This decrease of $26.4 million is summarized as follows (in millions):

	2009	2008	Change
Citizens Gas	**$ 23.1**	$ 28.5	$ (5.4)
Steam	**4.7**	8.1	(3.4)
Chilled Water	**2.4**	19.2	(16.8)
Oil	**0.1**	0.5	(0.4)
Resources	**0.1**	0.5	(0.4)
Total Capital Expenditures	$ **30.4**	$ 56.8	$ (26.4)

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 at Citizens Thermal, but at a much lower level than in 2008.

Citizens Gas has approximately $331.9 million of long-term debt outstanding and Citizens Thermal has approximately $139.2 million of long-term debt outstanding, net of current maturities and unamortized



bond premium and discount. In addition to the long-term debt, Citizens Gas has $50 million in commercial paper outstanding. The seasonal nature of Citizens Gas creates short-term working capital needs to fund gas inventory purchases and accounts receivable during the heating season. Citizens Gas has $125 million of working capital lines of credit available on an annual basis to fund such needs. Two $25 million lines are available currently and an additional $75 million line is available October 1 through March 31 to cover the peak cash requirement season. As of September 30, 2009, Citizens Gas had no amount outstanding under such lines of credit, so the entire amount remained available as specified above. Additionally, a new $10 million line of credit for Citizens Thermal was established on April 15, 2009 with J.P. Morgan Chase to supplement working capital requirements. As of September 30, 2009, $3.3 million of the Citizens Thermal line of credit remained available.

On February 17, 2009, Citizens Gas issued $42.5 million of City of Indianapolis, Indiana, Gas Utility Distribution System, Second Lien Multi-Mode Revenue Refunding Bonds, Series 2009A, due 2009 to 2018. This series was issued at a premium of $1.9 million. The new debt was issued as fixed rate serial bonds ranging from a coupon rate of 3 percent for bonds maturing in 2009, increasing to 5 percent for bonds maturing in 2018. The proceeds of this series were used to refund a portion of the Gas Utility Distribution System First Lien Multi-Mode Revenue Refunding Bonds, Series 1998A in the aggregate principal amount of $35.9 million and refund $11.5 million of an outstanding revolving line of credit.

The Trust has certain trust indentures associated with the Gas Utility System (GUS) and Gas Utility Distribution System (GUDS) 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, 2009, the Trust was in compliance with all debt covenants.

Regulatory Developments

Citizens Gas

On March 18, 2008, Citizens Gas 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 Citizens Gas, the Indiana Office of Utility Consumer Counselor and a group of industrial customers that intervened in the IURC proceeding. The IURC Order authorized Citizens Gas 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 Citizens Gas 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 its 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. Citizens Gas implemented the IURC-approved rate increase and the approved changes to its general terms and conditions for gas utility service effective September 19, 2008.

Westfield Gas

On December 31, 2008, Westfield Gas Corporation (Westfield), which is an indirect, wholly-owned subsidiary of Citizens Energy Group, filed with the IURC, a petition requesting and testimony supporting approval of a new schedule of rates and charges. Westfield's testimony supports an increase to annual gas utility operating revenues of approximately $1.0 million. Westfield also requested other approvals in the petition, including authority to implement a rate structure that would decouple revenue collection from gas sales volumes, authority to recover unaccounted for gas costs and a portion of net write-offs through its gas cost adjustment charge, approval of new depreciation accrual rates and approval of 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. On May 29, 2009, the Indiana Office of Utility Consumer Counselor filed testimony supporting an increase to Westfield's annual gas utility operating revenues of approximately $528,000. Hearings have been held and the matter is now awaiting an order from the IURC. Westfield anticipates receiving an order from the IURC ruling on its petition in late calendar year 2009 or early calendar year 2010.

Citizens Thermal Steam

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 Citizens Thermal, 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 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.

Citizens Thermal filed a petition and its case-in-chief with the IURC on November 2, 2009 requesting approval of a new schedule of rates and charges to increase its steam utility operating revenues by approximately $8.2 million. A procedural schedule for the case has not been established.

Derivatives And Hedging

The Trust has entered into certain derivative and hedging transactions in 2009 and 2008, respectively. These transactions, accounted for using ASC 815, *Derivatives and Hedging*, 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. The swap was terminated on May 23, 2008 for $7.9 million which was the market value at the time.

Consolidated Statements of Operations

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

		Fiscal Year Ended September 30, 2009	2008
Operating Revenues:	Utility operating revenues	$ 514,874	$ 499,957
	Non-utility operating revenues	40,351	42,486
	Total operating revenues	555,225	542,443
Operating Expenses:	Cost of Goods Sold:		
	Utility cost of goods sold	347,263	339,603
	Non-utility cost of goods sold	11,066	10,883
	Total cost of goods sold	358,329	350,486
	Other operations and maintenance	59,606	57,521
	General and administrative	59,142	55,753
	Depreciation and amortization	33,753	30,257
	Taxes	14,459	15,538
	Total operating expenses	525,289	509,555
Total Operating Income		29,936	32,888
Other Income (Expense)-Net:	Interest income	1,158	4,300
	Other	(2,619)	(7,120)
	Total other income (expense)	(1,461)	(2,820)
Income Before Equity in Earnings of Affiliates and Interest Charges		28,475	30,068
Equity in Earnings of Affiliates		676	25,330
Interest Charges:	Interest on long-term debt	(24,469)	(25,341)
	Other interest including discount amortization	(3,582)	(4,721)
	Total interest charges	(28,051)	(30,062)
Income from Continuing Operations		1,100	25,336
Loss from Discontinued Operations		(7,214)	(5,449)
Net Income (Loss)		$ (6,114)	$ 19,887

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)

		At September 30, 2009	2008
	Assets		
Property, Plant and Equipment:	Utility plant, at original cost	$ 747,854	$ 716,719
	Accumulated depreciation	394,041	378,554
		353,813	338,165
	Non-utility plant, at original cost	68,315	65,893
	Accumulated depreciation	15,656	13,405
		52,659	52,488
	Construction work in progress	19,240	31,746
		425,712	422,399
Intangibles:	Thermal customer contracts, net	111,794	118,180
		111,794	118,180
Investments:	Bond retirement funds	25,350	12,506
	Investment in affiliates	97,288	114,843
	Other	6,619	9,084
		129,257	136,433
Current Assets:	Cash and cash equivalents	83,735	29,132
	Accounts receivable, less allowance for doubtful accounts of $2,373 and $2,138, respectively	28,315	39,377
	Accrued utility revenue	4,009	4,865
	Natural gas in storage	82,678	137,955
	Materials and supplies	8,147	7,681
	Recoverable gas and fuel costs	-	15,283
	Prepayments and deposits	2,852	2,684
	Current assets held for sale and discontinued operations	6,687	11,958
		216,423	248,935
Deferred Charges and Other Non-Current Assets:	Bond issuance cost, net	23,199	25,221
	Other deferred charges	15,758	15,601
	Non-current assets held for sale and discontinued operations	1,864	2,232
		40,821	43,054
	Total Assets	$ 924,007	$ 969,001
	Capitalization and Liabilities		
Capitalization and Non-Current Liabilities:	Retained earnings	$ 255,185	$ 263,166
	Accumulated other comprehensive income/(loss)	(106,087)	(36,415)
	Long-term debt (excluding current maturities)	471,132	479,559
	Retirement benefit and other long-term liabilities	78,799	27,620
	Non-current liabilities directly related to assets held for sale and discontinued operations	42,786	31,592
		741,815	765,522
Current Liabilities:	Current maturities of long-term debt	19,745	15,201
	Short-term borrowings	56,700	68,000
	Accounts payable and accrued expenses	62,692	88,691
	Accrued taxes	13,505	14,569
	Customer deposits and advance payments	13,780	13,648
	Customer benefits	1,003	1,518
	Refundable gas and fuel costs	13,053	-
	Other	12	399
	Current liabilities directly related to assets held for sale and discontinued operations	1,702	1,453
		182,192	203,479
Commitments and Contingencies (Note 11):			
	Total Capitalization and Liabilities	$ 924,007	$ 969,001

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,	
	2009	2008
Operating Activities:		
Net income (loss)	**$ (6,114)**	$ 19,887
Depreciation and amortization	**36,076**	33,690
Amortization of bond discount	**990**	930
Equity in earnings of affiliates, net of distributions	**10,920**	(18,759)
Allowance for doubtful accounts	**(235)**	(887)
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	**12,154**	(6,256)
Natural gas in storage	**55,278**	(42,311)
Recoverable/refundable gas costs	**34,722**	(30,771)
Prepayments and deposits	**(168)**	266
Other current assets	**(466)**	(337)
Accounts payable and accrued expenses	**(27,794)**	9,033
Retirement benefit and other liabilities	**50,173**	9,299
Net change in deferred charges	**(64,937)**	(11,138)
Other operating activities	**(387)**	(7)
Net cash provided by operating activities of discontinued operations	**17,082**	1,785
Net cash provided (used) by operating activities	**117,294**	(35,576)
Investing Activities:		
Construction expenditures	**(29,490)**	(54,502)
Purchase of investment securities	**(111,609)**	(31,680)
Sale and maturity of investment securities	**98,765**	113,904
Other investing activities	**(4,125)**	(8,239)
Net cash provided (used) by investing activities	**(46,459)**	19,483
Financing Activities:		
Proceeds from bank line of credit	**62,500**	42,000
Repayment of bank line of credit	**(73,800)**	(24,000)
Principal payments of long-term debt and bond refunding	**(47,150)**	(228,626)
Proceeds from bond refunding	**44,349**	240,050
Bond issuance costs	**(754)**	(3,918)
Customer benefits arising from nonregulated operations distributable to gas customers	**(1,377)**	(2,203)
Net cash provided (used) by financing activities	**(16,232)**	23,303
Net change in cash and cash equivalents	**54,603**	7,210
Cash and cash equivalents at beginning of fiscal year	**29,132**	21,922
Cash and cash equivalents at end of fiscal year	**$ 83,735**	$ 29,132

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, 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)	
ASC 715 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
Comprehensive income (loss):			
Net loss	$ (6,114)		$ (6,114)
Comprehensive loss of unconsolidated investment		$ (6,634)	
ASC 715 retirement benefit liability adjustments		(63,038)	(69,672)
Total comprehensive income (loss)			(75,786)
Adjustment for the adoption of ASC 715 measurement date provision	(1,006)		(1,006)
Customer benefit distributions	(861)		(861)
September 30, 2009	$ 255,185	$ (106,087)	$ 149,098

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

City of Indianapolis Department of Public Utilities d/b/a/ Citizens Energy Group

1. Summary Of Significant Accounting Policies

A. Nature Of Operations:

Citizens Energy Group (the Trust), 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). Resources includes both affiliate joint venture interests, the most significant of which is ProLiance Holdings, LLC (see Note 3) as well as several wholly-owned subsidiaries, one of which (Westfield Gas) is operated as a regulated natural gas distribution utility. The former Manufacturing business segment is now reported 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, asset retirement obligation (Discontinued Operations) and assumptions underlying the actuarial calculations for pension and post-retirement liabilities.

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) **2009**	2008	Useful Lives
Utility:			
Distribution	**$ 534,024**	$ 518,597	15 – 65 years
Gas storage	**84,033**	83,722	33 – 60 years
Production	**36,639**	30,051	50 – 75 years
Transmission	**35,662**	33,056	22 – 60 years
General plant	**57,496**	51,293	5 – 30 years
	$ 747,854	$ 716,719	
Non-utility:			
Distribution	**$ 25,458**	$ 25,176	40 – 55 years
Production	**42,327**	39,794	5 – 40 years
General plant	**530**	923	5 – 25 years
	$ 68,315	$ 65,893	

Depreciation expense was $27.2 million in 2009 and $25.7 million in 2008. Depreciation expense as a percentage of original depreciable cost is as follows:

	2009	2008
Citizens Gas	**3.2%**	3.2%
Steam	**5.6%**	6.5%
Chilled Water	**4.0%**	4.1%
Oil	**20.3%**	22.7%

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 $0.3 million in 2009 and $0.5 million in 2008.

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. Westfield Gas customer billings are rendered monthly on or near the 10th calendar day of each 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 is reversed in the subsequent accounting period when meters are actually read and customers are billed. Meter readings are taken as of month-end for Steam and Chilled Water 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 $7.0 million and $6.9 million in 2009 and 2008, 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 and Westfield Gas through rates is deferred and recovered (or refunded) through gas cost adjustments (GCA) permitted by the IURC. Citizens Gas is authorized to change its GCA factors quarterly as a result of changes in market prices. Citizens Gas is authorized to utilize a flex mechanism in its quarterly filings to change its GCA factors within a fixed, known and measurable range, on a monthly basis, through a Monthly Price Update as a result of changes in market prices. Westfield Gas is authorized to change its GCA factors quarterly as a result of changes in market prices. The difference between actual fuel costs and the amounts of fuel costs recovered by the Steam Division through rates is deferred and recovered (or refunded) through the fuel adjustment cost (FAC) permitted by the IURC. The Steam Division is authorized to change its FAC factors each quarter as a result of changes in market prices.

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 $80.0 and $25.2 million at September 30, 2009 and 2008, respectively.

J. Supplemental Disclosures Of Cash Flow Information:

	(In Thousands) 2009	2008
Cash paid during the year for:		
Interest	**$ 25,364**	$ 25,307
Non-cash activities were as follows:		
Accrued construction work-in-progress	**$ 863**	$ 2,292
Comprehensive gain (loss) on investment in affiliates	**(6,634)**	(9,941)
Unrealized losses on derivatives, net	**(6,387)**	(4,141)
Total non-cash investing activities	**$ (12,158)**	$ (11,790)

K. Fair Value Measurements:

The carrying amount reported in the Consolidated Statements of Financial Position for current assets and current liabilities approximates the fair value.

In accordance with FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, the Company's financial assets and liabilities have been categorized, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below.

The table below Note 1.L presents the financial assets and liabilities measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2009 (in thousands).

The fair values of the bond retirement funds and derivative instruments have been determined using quoted prices in an active market. The fair value of derivatives at September 30, 2009 was $3.0 million with a notional dollar value of $3.2 million. Gains/losses and fees associated with these derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker.

Management has estimated the fair value of the outstanding debt securities based on the coupons of the outstanding bonds and the current market yields. Management established the corresponding price to the call date as well as the price to maturity. The fair value was determined based on the lower of these two prices. Using this method, the estimated fair value of the debt is $515.1 million versus carrying value of $490.9 million.

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. The Board of Directors voted on April 11, 2007, to cease operations of Indianapolis Coke (Manufacturing Division) as soon as reasonably practical. Manufacturing Division (now reported as Discontinued Operations) plant assets at September 30, 2009 are $2.1 million, representing the estimated remaining salvage value of the plant (see Note 9).

			Fair Value Measurements at Sep. 30, 2009, Using		
Description	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$ 83,735	$ 83,735	$ 83,735	$ -	$ -
Bond retirement funds	25,350	25,350	25,350	-	-
Derivatives	3,002	3,002	3,002	-	-
Total financial assets measured at fair value	$ 112,087	$ 112,087	$ 112,087	$ -	$ -

M. Intangible Assets:

The customer contracts intangibles are finite lived and amortized on a straight-line basis over their expected useful lives which range from 20 to 30 years other than the contract discussed below. The gross value of intangible customer contracts was $129.7 million at September 30, 2009 and 2008. Accumulated amortization for all intangible customer contracts was $17.9 million and $11.5 million at September 30, 2009 and 2008, respectively. Amortization expense of such assets was $6.4 million and $4.4 million in 2009 and 2008, respectively. Estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows:

	(In Millions)
2010	$ 5.0
2011	5.0
2012	4.7
2013	4.4
2014	4.4

On June 1, 2009, one Citizens Thermal customer associated with a customer contract intangible asset announced that its Indianapolis plant would be closed or sold by December, 2011. Consequently, the Trust performed an impairment analysis and recorded a charge of $1.9 million in June, 2009 to amortization expense. The value at September 30, 2009, of the related customer contract is $2.3 million, representing the estimated remaining discounted cash flows. The remaining carrying amount of the related customer contract will be amortized over the remaining useful life of 5 years.

N. Regulatory Developments, Assets And Liabilities:

a. Regulatory Developments

Citizens Gas

On March 18, 2008, Citizens Gas 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 Citizens Gas, the Indiana Office of Utility Consumer Counselor and a group of industrial customers that intervened in the IURC proceeding. The IURC Order authorized Citizens Gas 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 Citizens Gas 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 its 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. Citizens Gas implemented the IURC-approved rate increase and the approved changes to its general terms and conditions for gas utility service effective September 19, 2008.

Westfield Gas

On December 31, 2008, Westfield Gas Corporation (Westfield), which is an indirect, wholly-owned subsidiary of Citizens Energy Group, filed with the IURC a petition requesting and testimony supporting approval of a new schedule of rates and charges. Westfield's testimony supports an increase to annual gas utility operating revenues of approximately $1.0 million. Westfield also requested other approvals in the petition, including authority to implement a rate structure that would decouple revenue collection from gas sales volumes, authority to recover unaccounted for gas costs and a portion of net write-offs through its gas cost adjustment charge, approval of new depreciation accrual rates and approval of 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. On May 29, 2009, the Indiana Office of Utility Consumer Counselor filed testimony supporting an increase to Westfield's annual gas utility operating revenues of approximately $528,000. Hearings have been held and the matter is now awaiting an order from the IURC. Westfield anticipates receiving an order from the IURC ruling on its petition in late calendar year 2009 or early calendar year 2010.

Citizens Thermal Steam

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 Citizens Thermal, 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 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.

b. Regulatory Assets and Liabilities

FASB Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*, 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 liability of $7.8 million at September 30, 2009 and a net regulatory asset of $22.3 million at September 30, 2008. The Trust continuously monitors changes in market and regulatory conditions and considers the effects of any changes in assessing the continual applicability of ASC 980.

Regulatory assets (liabilities) were comprised of the following at September 30, 2009 and 2008 (in millions):

	2009	2008	Recovery/Refund Period
Deferred Regulatory Proceeding Costs	$ 0.8	$ 1.1	various
Deferred Post-Retirement Benefit Costs	2.3	2.7	through 2014
Deferred Fuel Tracking Adjustments	(15.3)	6.1	1 – 18 months
Price Volatility Mitigation Program	2.3	9.2	1 – 13 months
Decoupled Sales Component*	6.0	7.2	1 – 15 months
Regulatory Credit for Remediation	(4.5)	(4.1)	not yet refunded
Other	0.6	0.1	various
Total Regulatory Assets (Liabilities)	$ (7.8)	$ 22.3	

* Citizens Gas 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. Capitalized software costs were $8.9 million and $1.5 million in 2009 and 2008, respectively. Internal and external training and maintenance costs incurred during the post-implementation stage associated with the development of internal use software are expensed as incurred.

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 the impact of pension and other post-retirement benefits, unrealized gains (losses) on a terminated interest rate swap and its share of ProLiance Holdings, 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 Citizens 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, 2008, $0.9 million was authorized and approved for distribution as a result of fiscal year 2008 operations and was distributed in calendar year 2009. In September, 2009, $0.9 million was authorized and approved for distribution as a result of fiscal year 2009 operations and will be distributable in calendar year 2010.

R. New Accounting Standards

FASB Accounting Standards Codification (ASC) Subtopic 105-10, *Generally Accepted Accounting Principles: Overall*. This standard establishes the FASB Accounting Standards Codification as the source of authoritative U.S. GAAP recognized by the FASB. The Codification does not change current U.S. GAAP but is intended to simplify user access to all authoritative U.S. GAAP by providing all literature related to a particular topic in one place. All existing accounting standard documents will be superseded. The Trust has adopted this standard during fiscal year 2009.

FASB Accounting Standards Codification (ASC) Subtopic 350-30, *Intangibles – Goodwill and Other: General Intangibles Other*. This standard 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 ASC 350-30. This standard 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 standard will have on its consolidated financial statements.

FASB Accounting Standards Codification (ASC) Topic 715, *Compensation: Retirement Benefits*. The Trust adopted ASC 715 as of September 30, 2007. This standard requires employers to measure plan assets and benefit obligations as of the date of the employer's fiscal year end statement of financial position with an effective date of fiscal years ending after December 15, 2008. The Trust adopted the measurement date provision of ASC 715 in fiscal year 2009, resulting in a decrease in retained earnings of $1.0 million at September 30, 2009.

FASB Accounting Standards Codification (ASC) Paragraph 715-20-65-2, *Compensation: Defined Benefit Plans – General: Transition*. This standard provides guidance on an employer's disclosures about plan assets of defined benefit pension or other postretirement plans. This standard also requires nonpublic entities to disclose net periodic benefit cost for each annual period for which a statement of income is presented. Enhanced disclosure requirements addressed in this standard include: investment allocation decision making, plan asset fair values, fair value valuation and input techniques, and concentrations of risk. This standard is effective for fiscal years ending after December 15, 2009, except for the requirement relating to nonpublic entities' disclosure of net periodic benefit cost which is effective upon issuance of the statement. The Trust is currently assessing the impact this standard will have on its consolidated financial statements.

FASB Accounting Standards Codification (ASC) Topic 805, *Business Combinations*. ASC 805 includes the fundamental requirements that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. This standard 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 standard 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 standard 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 believes this standard could have a material effect on its consolidated financial statements if the trust makes future acquisitions.

The Trust will adopt this standard in 2010 and will begin expensing acquisition-related costs in the 2010 annual reporting period. In cases where acquisition costs are deemed probable for recovery under ASC 980, *Regulated Operations*, the Trust will defer until the acquisition is either completed and capitalized as a part of the new regulated business, or becomes improbable of occurring and expensed.

Consistent with the current guidance for accounting for business combinations prior to October 1, 2009, the Trust's accounting policy has been to defer acquisition-related costs until such time as the outcome of the acquisition effort becomes known. These costs are then either capitalized or expensed depending on that outcome. Deferred acquisition-related costs were $1.2 million and $0 at September 30, 2009 and 2008, respectively.

FASB Accounting Standards Codification (ASC) Topic 810, *Consolidation*. This standard replaces the quantitative-based risks and rewards calculation for determining if an enterprise has a controlling financial interest in a variable interest entity ("VIE") with an approach focused on identifying if the enterprise has the power to direct the activities of the VIE that most significantly impacts the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This standard also requires an additional reconsideration event when determining whether an entity is a VIE when any changes in facts and circumstances occur such that the holders of the equity investment lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of the VIE. The standard also requires additional disclosures about the enterprise's involvement in a VIE. This standard is effective as of the beginning of the reporting entity's first annual reporting period that begins after November 16, 2009. The Trust is currently assessing the impact this standard will have on its consolidated financial statements.

FASB Accounting Standards Codification (ASC) Paragraph 810-10-65-1, *Consolidation: Overall: Transition: General*. ASC 810-10-65-1 establishes 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 standard changes the way the consolidated statement of operations 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 standard establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that does not result in deconsolidation. It requires a gain or loss in net income be recognized when a subsidiary is deconsolidated, and it expands disclosures. This standard is effective for fiscal years beginning on or after December 15, 2008. The Trust is currently assessing the impact this standard will have on its consolidated financial statements.

FASB Accounting Standards Codification (ASC) Subtopic 815-10, *Derivatives and Hedging, Overall*. ASC 815-10 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 ASC 815-10 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 standard is effective for fiscal years and interim periods beginning after November 15, 2008. The Trust is currently assessing the impact this standard will have on its consolidated financial statements.

FASB Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. ASC 820 does not require any new fair value measurements; however, the standard will impact how other fair value based GAAP is applied. ASC 820 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 (ASC 820-10) relating to fair value measurements. ASC 820-10 amends ASC 820 to exclude FASB Accounting Standards Codification (ASC) Topic 840, *Leases*, except for assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under ASC 805. ASC 820-10 delays the effective date of ASC 820 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). ASC 820-10 clarifies the application of ASC 820 when the market for a financial asset is not active. The Trust has partially adopted ASC 820 effective October 1, 2008 for financial assets and liabilities (see Note 1. K).

FASB Accounting Standards Codification (ASC) Topic 825, *Financial Instruments*. ASC 825 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. ASC 825 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 ASC 820. The Trust has assessed the impact this standard 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.

FASB Accounting Standards Codification (ASC) Topic 855, *Subsequent Events*. This statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. In particular, this Standard sets forth: the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; and the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date. In accordance with the Statement, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009. The Trust has evaluated subsequent events through December 15, 2009, the date the financial statements were available to be issued. See Note 12 for disclosure of identified subsequent events.

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 $25.4 million at September 30, 2009, and $12.5 million at September 30, 2008. Gross proceeds on the bond retirement funds investments that matured during 2009 and 2008 were $51.8 million and $29.1 million, respectively. There were no realized gains or losses associated with the sales.

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 $201.4 million and $349.5 million of gas from ProLiance in 2009 and 2008, respectively. In addition, the Trust received less than $0.1 million in 2009 and 2008 from ProLiance as reimbursement for various general and administrative expenses. At September 30, 2009 and 2008, the Trust owed ProLiance $7.8 million and $28.0 million, respectively, for gas purchased. ProLiance is accounted for under the equity method.

Liberty Gas Storage, LLC (Liberty), a joint venture between a subsidiary of ProLiance and a subsidiary of Sempra Energy (SE), is a development project for salt-cavern natural gas storage facilities. ProLiance is the minority member with a 25 percent interest, which it accounts for using the equity method. The project was expected to include 17 Bcf of capacity in its north facility (previously referred to as the Sulfur site, located near Sulfur, Louisiana), and an additional 17 Bcf of capacity in its south facility (previously referred to as the Hackberry site, near Hackberry, Louisiana). As more fully described below, it is now expected that only the south facility will be completed by the joint venture. This facility is expected to provide at least 17 Bcf of capacity. The Liberty pipeline system is currently connected with several interstate pipelines, including the Cameron Interstate Pipeline operated by Sempra Pipelines & Storage, and will connect area LNG regasification terminals to an interstate natural gas transmission system and storage facilities. ProLiance's investment in Liberty is $37.1 million at September 30, 2009, after reflecting the charge discussed below.

In 2008, SE advised ProLiance that the completion of Liberty's development at the north site had been delayed by subsurface and well-completion problems. Based on testing performed in the second calendar quarter of 2009, SE determined that attempts at corrective measures had been unsuccessful. During 2009, Liberty recorded a charge of approximately $132.0 million to write off the caverns and certain related assets, reflecting the abandonment of the north site. As an equity investor in Liberty, ProLiance recorded its 25 percent share of the charge, totaling $32.6 million at June 30, 2009. The impact on the Company was a $12.9 million reduction in "Equity in Earnings of Affiliates". The charge does not have a material adverse effect on either the Company's or ProLiance's financial position, cash flows, or liquidity. ProLiance does not expect it to impact its future liquidity or access to capital, nor is it expected that this situation will impact ProLiance's ability to meet the needs of its customers.

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 $0.3 million to RPS for services in 2009 and 2008. The Trust received less than $0.1 million for reimbursement of payroll, employee benefit, and various general and administrative expenses paid on behalf of RPS in 2009 and 2008. 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. Heartland is accounted for under the equity method. The Trust received storage rental fees from Heartland of $0.7 million and $0.6 million in 2009 and 2008, 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 below (in millions).

	2009			2008		
	ProLiance	**Other**	**Total**	ProLiance	Other	Total
Condensed Statement of Operation:						
Revenues	**$ 1,951**	**$ 8**	**$ 1,959**	$ 2,728	$ 8	$ 2,736
Operating income	**30**	**3**	**33**	61	3	64
Net income (loss)	**(1)**	**2**	**1**	63	2	65
Condensed Statement of Financial Position:						
Current assets	**$ 355**	**$ 3**	**$ 358**	$ 697	$ 3	$ 700
Non-current assets	**62**	**20**	**82**	46	21	67
	$ 417	**$ 23**	**$ 440**	$ 743	$ 24	$ 767
Current liabilities	**$ 173**	**$ 2**	**$ 175**	$ 454	$ 2	$ 456
Non-current liabilities	**4**	**8**	**12**	4	9	13
Equity	**240**	**13**	**253**	285	13	298
	$ 417	**$ 23**	**$ 440**	$ 743	$ 24	$ 767

4. Long-Term Debt

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

	(In Thousands) 2009	2008
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	**62,850**	98,760
Series 2008A, Second Lien Multi-Mode Revenue Bonds, 5.00 %, due 2027 to 2030	**55,850**	55,850
Series 2008B, Second Lien Multi-Mode Revenue Bonds, 5.25 %, due 2025 to 2027	**55,855**	55,855
Series 2008C, Second Lien Multi-Mode Revenue Bonds, 4.00 % to 5.25 %, due to 2021	**67,735**	69,795
Gas Utility Distribution System Second Lien Revenue Refunding Bonds Series 2009A, 3.00 % to 5.00 %, due 2009 to 2018	**38,080**	–
Thermal Energy System Revenue Bonds Series 2001A, 3.80 % to 5.50 %, due 2004 (October) to 2021	**92,060**	97,125
Thermal Energy System Series 2008, Multi-Mode Revenue Bonds, 5.00 %, due 2022 to 2026	**50,070**	50,070
Citizens Resources Term Loan, 5.26 %, due 2010	**4,250**	4,598
Net Unamortized Bond Premium (Discount)	**3,567**	2,147
Current Maturities	**(19,745)**	(15,201)
Total Long-Term Debt	**$ 471,132**	$ 479,559

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, Series 2008C and Series 2009A, 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 Series 2009A bonds were issued on February 17, 2009 in conjunction with a partial refunding of the Series 1998A 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, as defined by each indenture, are summarized as follows for 2009:

	Minimum Covenant Requirement	2009 Actual
GUS Revenue Refunding Bonds Series 1986B	1.40	15.14
GUDS Revenue Refunding Bonds Series 1998A	1.10	5.45
Series 2008A, Series 2008B, Series 2008C and Series 2009A, Second Lien Multi-Mode Revenue Bonds	1.00	1.80
Thermal Energy System Revenue Bonds Series 2001A and 2008	1.00	1.34
Resources Term Loan	3.00	14.86

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

	(In Thousands)
2010	$ 19,745
2011	16,755
2012	17,560
2013	18,390
Thereafter	414,860
Total principal maturities	$ 487,310

5. Short-Term Borrowings

Citizens Gas has $50 million in commercial paper outstanding at September 30, 2009 and 2008. The commercial paper has a maximum maturity of 270 days and is to be re-marketed in October, 2009. The seasonal nature of Citizens Gas creates short-term working capital needs to fund gas inventory purchases and accounts receivable during the heating season. Citizens Gas has $125 million of working capital lines of credit available on an annual basis to fund such needs. Two $25 million lines are available currently and an additional $75 million line is available October 1 through March

31 to cover the peak cash requirement season. As of September 30, 2009, Citizens Gas had no amount outstanding under such lines of credit, so the entire amount remained available as specified above. The two $25 million lines of credit have a maturity date of July, 2010 and interest rates of LIBOR plus 1.25 percent and Libor plus 1.75 percent. The $75 million line of credit has an interest rate of LIBOR plus 1.0 percent. Additionally, a new $10 million line of credit for Citizens Thermal was established on April 15, 2009 with J.P. Morgan Chase to supplement working capital requirements. As of September 30, 2009, $3.3 million of the Citizens Thermal line of credit remained available. The $10 million Citizens Thermal line of credit has a maturity date of March, 2010 and interest rate of LIBOR plus 1.75 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, 2009 and 2008, respectively:

	(In Thousands)	
	2009	2008
Accounts payable	**$ 9,689**	$ 14,833
Related party payable – ProLiance Holdings	**7,755**	27,974
Salaries and employee benefits	**11,130**	10,345
Customer credit balances	**15,457**	17,764
Post-retirement benefits	**1,476**	1,490
Accrued interest	**9,012**	8,842
Other	**8,173**	7,443
Total accounts payable and accrued expenses	**$ 62,692**	$ 88,691

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 ASC 715, as of September 30, 2007. In adopting ASC 715, the Trust recognizes 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 September, 2009, the Trust recorded a $1.0 million charge to retained earnings in order to comply with ASC 715, which requires a company to use a measurement date that is equal to its fiscal year-end for determining the value of its retirement obligations for the fiscal year. ASC 715 requires the Trust to record 3 months of cost as an adjustment to retained earnings instead of expensing 15 months of retirement obligation in the fiscal year.

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 $1.3 million and $1.2 million for 2009 and 2008, 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 $1.1 million and $1.8 million for 2009 and 2008, respectively. Between 1994 and 2002, in accordance with an IURC order permitting the deferral and subsequent recovery of costs in excess of pay as you go, the Trust had been deferring such post-retirement benefit costs of Citizens Gas amounting to $5.4 million. Since 2002, Citizens Gas has recovered, through its rates, $3.1 million and $2.7 million through September 30, 2009 and 2008, respectively, leaving a deferred balance of $2.3 million and $2.7 million as of September 30, 2009 and 2008, respectively. Post-retirement benefit costs applicable to the Thermal, Manufacturing and Oil divisions have not been deferred.

On December 31, 2007, 12 employees accepted an enhanced early retirement 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, 2009 and 2008:

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2009*	2008	**2009**	2008
Projected Benefit Obligation (PBO)	**$ 221,870**	$ 176,336	**$ 24,063**	$ 21,852
Plan assets at fair value	**159,124**	169,469	**-**	-
Funded status	**$ (62,746)**	$ (6,867)	**$ (24,063)**	$ (21,852)
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Current liability	**$ -**	$ -	**$ (2,027)**	$ (2,066)
Non-current liability	**(62,746)**	(6,867)	**(22,036)**	(19,786)
Net amounts recognized	**$ (62,746)**	$ (6,867)	**$ (24,063)**	$ (21,852)
Amounts in Accumulated Other Comprehensive Income (AOCI) not in costs*:				
Unrecognized transition obligation	**$ -**	$ -	**$ 2,369**	$ 2,959
Unrecognized prior service cost	**3,649**	4,526	**560**	731
Unrecognized actuarial loss (gain)	**86,701**	24,397	**4,264**	2,165
Total Amounts in AOCI	**$ 90,350**	$ 28,923	**$ 7,193**	$ 5,855

* The amounts expected to be recognized in 2010 out of AOCI, in thousands, are $5,585 for the defined benefit pension plan and $882 for the other benefits, 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)	
	2009*	2008	**2009**	2008
Service cost-benefits attributed to service during the period	**$ 4,799**	$ 4,004	**$ 645**	$ 661
Interest cost	**14,496**	10,870	**1,564**	1,186
Actual loss (gain) on assets	**7,256**	7,274	**-**	-
Amortization of transition obligation	**-**	-	**590**	590
Amortization of prior service cost	**877**	701	**161**	161
Amortization of loss (gain)	**649**	-	**-**	-
Deferred actuarial gain (loss)	**(22,667)**	(20,701)	**(60)**	212
Net periodic benefit cost	**5,410**	2,148	**2,900**	2,810
Curtailment expense	**-**	705	**-**	-
Early retirement window expense	**-**	1,251	**10**	650
Change in deferred regulatory asset	**-**	-	**-**	451
Total expense for the year	**$ 5,410**	$ 4,104	**$ 2,910**	$ 3,911

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)	
	2009	2008	**2009**	2008
Expected long-term rate of return on assets	**7.50%**	7.50%	**-**	-
Discount rates used to value benefit obligations	**5.50%**	6.80%	**5.18%**	7.69%
Discount rates used to value net periodic benefit costs	**6.80%**	6.10%	**7.69%**	6.13%
Increase in participant compensation rates	**3.50%**	3.50%	**-**	-
Healthcare cost trend rate assumed for next year			**8.5%**	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 September 30, 2009 and June 30, 2008 were used to determine the pension cost for the years 2009 and 2008.

The Trust's pension plan weighted-average asset allocation as of September 30, 2009 and June 30, 2008, by asset category is as follows:

	2009	2008
Equity securities	**60%**	68%
Debt securities	**38%**	25%
Other	**2%**	7%
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)	
	2009	2008	**2009**	2008
Employer contributions	**$ 10,728**	$ 2,707	**$ 1,941**	$ 1,674
Participant contributions	**$ -**	$ -	**$ 451**	$ 351
Benefits paid	**$ 13,818***	$ 11,099	**$ 2,392**	$ 2,025

The Trust expects to contribute, at a minimum, $9.8 million to its pension plan for 2010. 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)
2010	$ 9,872	$ 1,877
2011	$ 10,066	$ 2,027
2012	$ 10,346	$ 2,105
2013	$ 10,843	$ 1,986
2014	$ 11,590	$ 2,066
Years 2015-2019	$ 69,143	$ 10,920

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)	
	2009	2008
Effect on total of service and interest cost	**$ 272**	$ 193
Effect on post-retirement benefit obligation	**$ 1,926**	$ 1,763

* Certain 2009 tables related to Defined Benefit Pension reflect a 15 month measurement period due to the ASC 715 transition from June 30, 2008 to September 30, 2009.

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; and distributing natural gas to residential, commercial and industrial customers located in Marion County, Indiana.

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

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

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 both affiliate joint venture interests, the most significant of which is ProLiance Holdings, LLC as well as several wholly-owned subsidiaries, one of which (Westfield Gas) is operated as a regulated natural gas distribution utility, in order to broaden the business activities of the Trust and to ultimately provide enhanced benefits to Trust beneficiaries. The assets of Citizens Mechanical Services (CMS), reported in Resources, were sold to Reliable Water Services, LLC on May 1, 2009.

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 reported 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, 2009 and 2008 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, 2009

	Citizens Gas	Steam	Chilled Water	Oil	Resources	Other	Disc Ops	**Total**
Operating revenues:								
Utility operating revenues	$ 438,026	$ 71,773	$ –	$ –	$ 5,075	$ –	$ –	**$ 514,874**
Non-utility operating revenues	–	–	33,877	4,078	2,396	–	–	**40,351**
Total operating revenues	438,026	71,773	33,877	4,078	7,471	–	–	**555,225**
Operating expenses:								
Cost of goods sold:								
Utility cost of goods sold	299,215	44,410	–	–	3,638	–	–	**347,263**
Non-utility cost of goods sold	–	–	10,353	–	713	–	–	**11,066**
Total cost of goods sold	299,215	44,410	10,353	–	4,351	–	–	**358,329**
Other operations and maintenance	38,710	15,100	4,242	1,257	297	–	–	**59,606**
General and administrative	43,037	7,936	3,474	258	4,437	–	–	**59,142**
Depreciation and amortization	21,024	6,098	5,555	436	640	–	–	**33,753**
Taxes	11,081	1,430	1,401	88	459	–	–	**14,459**
Total operating expenses	413,067	74,974	25,025	2,039	10,184	–	–	**525,289**
Total operating income (loss)	24,959	(3,201)	8,852	2,039	(2,713)	–	–	**29,936**
Other income (expense)-net:								
Interest income	875	20	19	52	161	31	–	**1,158**
Other	94	19	(361)	–	143	(2,514)	–	**(2,619)**
Total other income (expense)	969	39	(342)	52	304	(2,483)	–	**(1,461)**
Income (loss) before equity in earnings of affiliates and interest charges	25,928	(3,162)	8,510	2,091	(2,409)	(2,483)	–	**28,475**
Equity in earnings of affiliates	–	–	–	–	676	–	–	**676**
Interest charges:								
Interest on long-term debt	16,621	3,286	4,329	–	233	–	–	**24,469**
Other interest including discount amortization	3,616	(16)	(19)	–	1	–	–	**3,582**
Total interest charges	20,237	3,270	4,310	–	234	–	–	**28,051**
Income (loss) from continuing operations	5,691	(6,432)	4,200	2,091	(1,967)	(2,483)	–	**1,100**
Loss from discontinued operations	–	–	–	–	–	–	(7,214)	**(7,214)**
Net income (loss)	$ 5,691	$ (6,432)	$ 4,200	$ 2,091	$ (1,967)	$ (2,483)	$ (7,214)	**$ (6,114)**

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 Financial Position

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

	At September 30, 2009							
	Citizens Gas	Steam	Chilled Water	Oil	Resources	Other	Disc Ops	**Total**
Assets								
Property, Plant and Equipment	$ 311,865	$ 50,332	$ 53,565	$ 1,172	$ 8,778	$ –	$ –	**$ 425,712**
Intangibles	–	27,349	84,445	–	–	–	–	**111,794**
Investments	19,733	3,936	5,125	–	100,463	–	–	**129,257**
Current Assets	168,581	13,535	(163)	2.576	20,253	4,968	6,673	**216,423**
Deferred Charges and Other Non-Current Assets	34,072	1,971	2,833	81	–	–	1,864	**40,821**
Total Assets	$ 534,251	$ 97,123	$ 145,805	$ 3,829	$ 129,494	$ 4,968	$ 8,537	**$ 924,007**
Capitalization and Liabilities								
Retained Earnings and Accumulated OCI	$ (12,626)	$ 13,151	$ 54,090	$ 3,357	$ 122,633	$ 4,824	$ (36,331)	**$ 149,098**
Long-Term Debt	331,959	60,418	78,755	–	–	–	–	**471,132**
Retirement Benefit and Other Long-Term Liabilities	69,557	5,455	3,093	223	471	–	42,786	**121,585**
Current Liabilities	145,361	18,099	9,867	249	6,390	144	2,082	**182,192**
Total Capitalization and Liabilities	$ 534,251	$ 97,123	$ 145,805	$ 3,829	$ 129,494	$ 4,968	$ 8,537	**$ 924,007**

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

Capital Expenditures – Accrual Basis

	Capital Expenditures (In Thousands)	
	2009	2008
Citizens Gas	**$ 23,100**	$ 28,451
Steam	**4,690**	8,143
Chilled Water	**2,422**	19,192
Oil	**51**	510
Resources	**90**	497
Total	**$ 30,353**	$ 56,793

Additional Citizens Thermal Financial Information

Additional Citizens Thermal (Steam and Chilled Water) financial information for the years ended September 30, 2009 and 2008 is summarized as follows:

	(In Thousands)	
	2009	2008
Net Income (Loss)	**$ (2,232)**	$ 4,458
Total Liabilities	**$ 175,687**	$ 173,398
Owners' Equity	**$ 67,241**	$ 75,764
Interest on Long-Term Debt	**$ 7,615**	$ 8,026
Cash Flow Information:		
Beginning Cash Position	**$ 4,287**	$ 23,337
Cash from Operations	**19,507**	13,870
Cash to Investments	**(13,406)**	(27,821)
Cash to Financings	**(2,761)**	(5,099)
Ending Cash Position	**$ 7,627**	$ 4,287

9. Manufacturing Discontinuation Of Production And Related Asset Retirement Obligations

The Manufacturing Division, d.b.a. Indianapolis Coke, was a manufactured gas and coke oven facility that provided manufactured gas to the Thermal Division and sold foundry, blast furnace, and other industrial coke and other coke oven by-products to industrial users. Due to a declining market, financial losses, and intense global competition, 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.

Final costs relating to the closure, including liquidation of inventories, plant demolition and environmental remediation, and termination benefits for eligible employees, are reflected in the accompanying financial statements in accordance with FASB Accounting Standards Codification (ASC) Topic 420, *Exit or Disposal Cost Obligations*. The costs of demolition and remediation will continue for several years. Current estimates of these costs are included in the financial statements as part of the asset retirement obligation.

The major classes of assets and liabilities of the Manufacturing segment (now reported as Discontinued Operations) are presented in the segment Consolidated Statements of Financial Position for fiscal years ended September 30, 2009 and 2008 in Note 8.

The operating results of Discontinued Operations for fiscal years ended September 30, 2009 and 2008 are as follows:

	(In Thousands)	
	2009	2008
Revenue	**$ -**	$ 12,761
Operating expenses	**7,214**	18,210
Loss from discontinued operations	**$ (7,214)**	$ (5,449)

The Trust performed a review of its asset retirement obligations under FASB Accounting Standards Codification (ASC) Topic 410, *Asset Retirement Obligations*, 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 environmental laws requiring the Trust to complete remediation of environmental contamination that may have resulted from the operation of the Manufacturing Division consistent with industrial/commercial closure levels established by the Indiana Department of Environmental Management's Regulatory Information Service Center program. 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. The Trust revised these estimates in both the timing and amount of the estimated cash flows in September, 2009. The net result of this adjustment was less than a $0.1 million decrease to the asset retirement obligation liability in September, 2009, relating to decreased estimates for eventual plant demolition and environmental remediation. This adjustment, and the activity in fiscal years 2008 and 2009 for the asset retirement obligation liability are as follows:

	(In Thousands)
Asset retirement obligation at 9/30/07	$ 24,222
Accretion expense	2,907
Asset retirement obligation at 9/30/08	27,129
Accretion expense	3,256
Remediation liabilities settled	(189)
Change in cash flows (September, 2009)	(25)
Asset retirement obligation at 9/30/09	$ 30,171

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 ASC 815, such energy contracts, to the extent they are not considered "normal" as defined by ASC 815, 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, 2009, these derivatives had a notional dollar value of $3.2 million and a fair value of $3.0 million. At September 30, 2008, these derivatives had a notional dollar value of $12.1 million and a fair value of $5.5 million.

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. The Trust has entered into settlement agreements with effectively all but one of the insurers. Certain settlements received through September 30, 2009 have been reported in the consolidated financial statements.

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 for the years ended September 30, 2009 and 2008. Future minimum lease payments under noncancelable operating leases as of September 30, 2009 are as follows:

	(In Millions)
2010	$ 11.3
2011	6.3
2012	0.5
2013	0.4
2014	0.4
Thereafter	–
Total minimum lease payments	$ 18.9

12. Subsequent Event

Management has considered the impact of subsequent events through December 15, 2009.

Regulatory Developments:

Citizens Thermal Steam

Citizens Thermal filed a petition and its case-in-chief with the IURC on November 2, 2009 requesting approval of a new schedule of rates and charges to increase its steam utility operating revenues by approximately $8.2 million. A procedural schedule for the case has not been established (see also Note 1.N.a).

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 statements of financial position of Citizens Energy Group and Subsidiary (the "Trust") as of September 30, 2009 and 2008, and the related consolidated statements of operations, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Trust'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 audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Citizens Energy Group and Subsidiary as of September 30, 2009 and 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, 2009
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 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 Trustees - Board of Directors - Executive Management

Board of Trustees:

(Left to Right:) ***Dennis Bland***, President, Center for Leadership Development; ***Board Secretary Dr. Gerald L. Bepko***, Trustee's Professor Indiana University School of Law; ***Kathryn Betley***, co-owner, Romancing the Seasons; ***Dan Evans***, President and CEO, Clarian Health Partners.

Board of Directors:

*(Left to Right:) Board Treasurer **Lawrence A. O'Connor**, Jr., Retired President, Bank One, Indiana; **Anne Nobles**, Chief Compliance Office - Senior Vice President, Compliance and Enterprise Risk Management, Eli Lilly and Co.; **Board Secretary Dorothy J. Jones**, President, BOS Community Development Corp.; **James M. McClelland**, President, Goodwill Industries of Central Indiana, Inc.; **Anita J. Harden**, Retired President, Community Hospital East; **Daniel C. Appel**, President, Gregory & Appel Insurance; **Board Chairwoman Martha D. Lamkin**, Retired President and CEO, Lumina Foundation for Education.*

Officers:

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

Executive Support Team:

*(Left to Right:) **David Toombs**, General Manager, Steam Operations; **Blaire Dougherty**, Executive Director & Controller; **Barb Smith**, General Manager Strategic Growth Initiatives; **LaTona Prentice**, Executive Director, Regulatory Affairs; **Kristine Kuhn**, Director, Internal Audit; **Chris Braun**, General Manager, Gas Operations; **Aaron Johnson**, Associate Counsel; and (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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