Management Discussion and Analysis

Forward-looking Statements

Certain matters discussed in this report, except historical information, include forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates, are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements contained in this Management Discussion and Analysis would prove to be accurate.

Financial Highlights:

Combined Results of Operations

Citizens Energy Group and CWA Authority, Inc. (combined, the Trusts) provide energy, water and wastewater utility services to customers in and around Marion County, Indiana. See Notes 1 and 3 of the combined financial statements for details of the Trusts' purchase of the Water and Wastewater Systems from the City of Indianapolis.

Operations of the Citizens Energy Group (CEG) trust include activities in six business segments: Citizens Gas, Water, Steam, Chilled Water, Oil and Citizens Resources (Resources). Steam and Chilled Water comprise the Thermal Energy System (Citizens Thermal or Thermal). Resources includes affiliate joint venture interests, the most significant of which is ProLiance Holdings, LLC (ProLiance) as well as several wholly owned subsidiaries, one of which, Westfield Gas Corporation (Westfield Gas) is operated as a regulated natural gas distribution utility. Operations of the CWA Authority, Inc. (CWA) trust include activities for the Wastewater business segment. While each of these business segments offers distinctive products and services to its customers and markets, all are dedicated to customer service excellence in providing energy or utility services. The Trusts' rates and charges for gas, steam, water and wastewater services are regulated by the Indiana Utility Regulatory Commission (IURC).

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

The Trusts reported combined net income of $32.5 million in 2011 as compared to net loss of $1.9 million in 2010. The $34.3 million increase in net income is summarized as follows:

	(In Millions)		
	2011	2010	Change
Operating Revenues:			
Utility	$ **418.8**	$ 395.6	$ 23.2
Non-Utility	**44.8**	45.1	(0.3)
Total Operating Revenues	**463.6**	440.7	22.9
Operating Expenses:			
Cost of Goods Sold:			
Utility	**213.3**	232.8	(19.5)
Non-Utility	**12.5**	11.7	0.8
Total Cost of Goods Sold	**225.8**	244.5	(18.7)
Other Operating Expenses	**199.5**	162.9	36.6
Curtailment of Acquired Benefit Plans	**(49.6)**	–	(49.6)
Total Operating Expenses	**375.7**	407.4	(31.7)
Total Operating Income	**87.9**	33.3	54.6
Other Income (Expense), Net	**4.7**	(8.8)	13.5
Equity in Earnings of Affiliates	**(19.3)**	4.9	(24.2)
Interest Charges	**35.3**	26.7	8.6
Income from Continuing Operations	**38.0**	2.7	35.3
Loss from Discontinued Operations	**(5.6)**	(4.6)	(1.0)
Net Income (Loss)	$ **32.4**	$ (1.9)	$ 34.3

For a more detailed understanding of these summarized results, see the following discussion and Note 10 of the combined financial statements.

UTILITY OPERATING REVENUES

Utility operating revenues increased $23.2 million to $418.8 million in 2011, from $395.6 million in 2010 due to the following:

Citizens Gas – decrease of $12.4 million. Total operating revenue for Citizens Gas decreased to $309.4 million in 2011 versus $321.8 million in 2010, on volume of gas sold and transported of 47.8 million dekatherms in 2011 versus 45.4 million dekatherms in 2010. Revenue decreased by $13.5 million due to lower gas cost recovery revenue in 2011. Base rate revenue increased $2.4 million due to higher volumes of gas sold and a base rate increase effective in September 2011, which was partially offset by decreased revenue of $1.4 million from rate mechanisms for Decoupling and Normal Temperature Adjustment. Miscellaneous revenue increased by $0.1 million compared to 2010. Coupled with the period-to-period changes in actual gas costs, the net margin on gas sales increased $2.6 million (see Utility Cost of Goods Sold section below).

Water – increase of $20.5 million. Total operating revenue for the Water business segment was $20.5 million in 2011 on volume sales of 5,603 million gallons. The Water business segment was acquired on August 26, 2011.

Wastewater – increase of $15.4 million. Total operating revenue for the Wastewater business segment was $15.4 million in 2011 on volume sales of 4,305 million gallons. The Wastewater business segment was acquired on August 26, 2011.

Steam – decrease of $1.0 million. Total operating revenue for the Steam business segment decreased to $68.8 million in 2011 versus $69.8 million in 2010, on volume sales of 65.7 million therms in 2011 versus 65.0 million therms in 2010. Revenue decreased by $4.9 million and $0.2 million due to lower fuel cost recovery revenue and decreased other miscellaneous revenue, respectively, compared to 2010. Revenue increased by $4.1 million due to an increase in base rates implemented in May 2010 (see Note 2.M.a of the combined financial statements for further details). Coupled with the period-to-period changes in actual fuel costs, the net margin on steam sales was an increase of $3.5 million (see Utility Cost of Goods Sold section below).

Resources; Westfield Gas – increase of $0.7 million. Total operating revenue for Westfield Gas increased to $4.7 million in 2011 versus $4.0 million in 2010, on volume sales of 467.3 thousand dekatherms in 2011 versus 463.6 thousand dekatherms in 2010. Revenue increased by $0.1 million due to higher gas cost recovery revenue and $0.1 million due to higher usage as a result of more customers compared to 2010. A base rate increase and Decoupling rate mechanism were implemented in March 2010 and resulted in increased revenue of $0.5 million in

2011 compared to 2010. Coupled with the period-to-period changes in actual gas costs, the net margin on gas sales increased $0.7 million (see Utility Cost of Goods Sold section below).

NON-UTILITY OPERATING REVENUES

Non-utility operating revenues decreased $0.3 million to $44.8 million in 2011, from $45.1 million in 2010 due to the following:

Chilled Water – increase of $0.7 million. Total operating revenue for the Chilled Water business segment increased to $38.5 million in 2011 versus $37.8 million in 2010, on volume sales of 166.0 million ton hours in 2011 versus 170.0 million ton hours in 2010. Revenue increased by $0.1 million compared to 2010 due to an annual price increase of $0.5 million, higher energy cost recovery of $0.5 million and new customer growth of $0.6 million. This was partially offset by a decrease of $0.9 million due to lower volumes sold related to 8 percent cooler weather and termination of the Lilly Facility Management contract.

Oil – increase of $1.0 million. Total operating revenue for the Oil business segment increased to $6.2 million in 2011 versus $5.2 million in 2010, on volume sales of 84 thousand barrels of oil in 2011 versus 88 thousand barrels of oil in 2010. Revenue averaged $74 per barrel in 2011 versus $59 per barrel in 2010.

Resources; Covance Laboratory Group (CLG) – decrease of $2.0 million. Total operating revenue for CLG decreased to $0.1 million in 2011 versus $2.1 million in 2010. Revenue decreased $2.0 million due to the October 1, 2010 termination of the management services contract by CLG.

UTILITY COST OF GOODS SOLD

Utility cost of goods sold decreased $19.5 million to $213.3 million in 2011, from $232.8 million in 2010 due to the following:

Citizens Gas – decrease of $15.0 million. Total gas costs for Citizens Gas decreased to $173.0 million in 2011 versus $188.0 million in 2010. The weighted average cost of gas decreased 8.4 percent, from $5.61 per dekatherm in 2010 to $5.14 in 2011. Purchased gas delivered directly to customers and company use gas decreased $18.0 million. Storage transactions resulted in a $1.6 million net decrease, primarily the result of lower withdrawals at lower average cost during the November 2010 through March 2011 winter heating season and lower injections at the same average cost during the subsequent April through September 2011 storage refill season. Partially offsetting these decreases was a $4.6 million increase for 2011 compared to 2010 in gas cost recovery reconciliation adjustments between actual and expected costs. Pricing for natural gas is driven by market factors.

Steam – decrease of $4.5 million. Total cost of goods sold for the Steam business segment decreased to $37.9 million in 2011 versus $42.4 million in 2010. This decrease was primarily due to lower Fuel Cost Adjustments between actual and expected costs of $6.9 million for 2011 compared to 2010. Partially offsetting this decrease were fuel and utility costs which increased by $2.4 million primarily due to coal price increases and increased natural gas consumption in 2011 compared to 2010.

Resources; Westfield Gas – no change. Total cost of goods sold for Westfield Gas was unchanged at $2.4 million in 2011 compared to 2010. An increase in sales volumes offset lower average commodity prices compared to 2010.

NON-UTILITY COST OF GOODS SOLD

Non-utility cost of goods sold increased $0.8 million to $12.5 million in 2011, from $11.7 million in 2010 due to the following:

Chilled Water – increase of $0.8 million. Total cost of goods sold for the Chilled Water business segment increased to $12.5 million in 2011 versus $11.7 million in 2010. This increase was primarily due to an increase in electrical costs per ton hour compared to 2010.

OTHER OPERATING EXPENSES

Other operating expenses increased $36.6 million to $199.5 million in 2011, from $162.9 million in 2010 due to the following:

Other Operations and Maintenance (O&M) – increase of $10.6 million. Other O&M by business segment for 2011 versus 2010 is as follows (in thousands):

		2011		2010		Change
Citizens Gas	$	**39,819**	$	39,418	$	401
Water		**3,536**		–		3,536
Wastewater		**5,062**		–		5,062
Steam		**14,695**		14,309		386
Chilled Water		**4,754**		4,105		649
Oil		**1,333**		1,338		(5)
Resources		**215**		246		(31)
Other		**597**		–		597
Total Other O&M	$	**70,011**	$	59,416	$	10,595

The Citizens Gas increase is primarily due to higher benefit costs of $0.5 million, line location costs of $0.3 million, fuel gas costs of $0.2 million and miscellaneous costs of $0.1 million, partially offset by lower wage costs of $0.7 million. The Water and Wastewater increases are due to costs incurred since the acquisition of water and wastewater utility assets on August 26, 2011. The Steam increase is primarily due to higher benefit costs of $0.3 million and labor costs of $0.1 million. The Chilled Water increase is primarily due to higher chiller maintenance costs of $0.4 million and benefit costs $0.2 million. The Other increase is due to shared field services costs.

General and Administrative (G&A) – increase of $12.2 million. G&A by business segment for 2011 versus 2010 is as follows (in thousands):

		2011		2010		Change
Citizens Gas	$	**55,090**	$	47,881	$	7,209
Water		**4,140**		–		4,140
Wastewater		**2,225**		–		2,225
Steam		**9,238**		8,036		1,202
Chilled Water		**3,547**		3,193		354
Oil		**418**		378		40
Resources		**3,685**		4,806		(1,121)
Other		**(6,802)**		(4,905)		(1,897)
Total G&A	$	**71,541**	$	59,389	$	12,152

The Citizens Gas increase is primarily due to post-retirement costs of $0.9 million and higher corporate support costs of $8.0 million related to benefit and integration costs, partially offset by lower variable pay costs of $0.6 million, uncollectible expense of $0.6 million and miscellaneous costs of $0.5 million. The Water and Wastewater increases are due to costs incurred since the acquisition of water and wastewater utility assets on August 26, 2011. The Steam increase is primarily due to higher benefit costs $0.8 million and corporate support costs of $0.4 million. The Chilled Water increase is primarily due to higher corporate support costs of $0.9 million, benefit costs of $0.3 million and uncollectible expense of $0.1 million, partially offset by lower costs as a result of the LCC Facility Management contract termination of $0.9 million. The Resources decrease is primarily due to lower costs as a result of the CLG contract termination of $1.7 million, partially offset by higher Citizens Resources Production costs of $0.3 million, Westfield Gas costs of $0.2 million and Resources – Parent costs of $0.1 million. The Other decrease is primarily due to the distribution of increased corporate support depreciation and property taxes to the Trusts' business segments (see Other Operations and Maintenance, Depreciation and Amortization and Taxes discussions).

Depreciation and Amortization – increase of $9.7 million. Depreciation and Amortization by business segment for 2011 versus 2010 is as follows (in thousands):

		2011		2010		Change
Citizens Gas	$	**17,990**	$	18,030	$	(40)
Water		**2,588**		–		2,588
Wastewater		**4,975**		–		4,975
Steam		**5,038**		4,420		618
Chilled Water		**5,490**		5,355		135
Oil		**327**		410		(83)
Resources		**413**		372		41
Other		**6,556**		5,116		1,440
Total Depreciation & Amortization	$	**43,377**	$	33,703	$	9,674

The Water and Wastewater increases are due to costs incurred since the acquisition of water and wastewater utility assets on August 26, 2011. The remaining net increase of $2.1 million is primarily due to changes in depreciation rates principally affecting corporate support resulting from a December 31, 2009 depreciation study.

Taxes – increase of $4.1 million. Taxes by business segment for 2011 versus 2010 are as follows (in thousands):

		2011		2010		Change
Citizens Gas	$	**7,959**	$	7,166	$	793
Water		**1,473**		–		1,473
Wastewater		**1,423**		–		1,423
Steam		**1,140**		1,099		41
Chilled Water		**1,718**		1,704		14
Oil		**102**		66		36
Resources		**664**		266		398
Other		**110**		155		(45)
Total Taxes	$	**14,589**	$	10,456	$	4,133

The Citizens Gas increase is primarily due to higher property taxes of $0.9 million offset by lower utility receipts tax of $0.1 million. The Water and Wastewater increases are due to costs incurred since the acquisition of water and wastewater utility assets on August 26, 2011. The Resources increase is primarily due to Westfield Gas income taxes.

CURTAILMENT OF ACQUIRED BENEFIT PLANS

Curtailment of Acquired Benefit Plans – decrease of $49.6 million. This decrease is due to recording curtailment gains of $46.2 million and $3.4 million to post-retirement and pension benefit plans, respectively, related to Water, in connection with the acquisition of water utility assets on August 26, 2011 (see Note 9 of the combined financial statements).

OTHER INCOME (EXPENSE), NET

Other Income (Expense), Net – increase of $13.5 million. Interest income decreased $0.3 million in 2011 to $0.3 million from $0.6 million in 2010 primarily due to lower interest rates. Other, net income increased $13.8 million to $4.4 million income in 2011 from $9.4 million expense in 2010. This was primarily due to recording a regulatory asset for previously expensed acquisition costs related to the City of Indianapolis' water and wastewater systems resulting in a $6.6 million credit to expense in 2011 to reverse the $6.6 million charge to expense recorded for such costs in 2010 (see Note 3 of the combined financial statements for additional information on acquisition costs). The regulatory asset could not be recorded until receipt of the IURC Order approving the acquisition which is why such costs were necessarily expensed in 2010. In addition, community investment and brand advertising expenses decreased $0.4 million in 2011 compared to 2010 and a $0.2 million write-off in 2010 of Westfield Gas rate case preparation costs not recoverable through gas rates did not recur in 2011.

EQUITY IN EARNINGS OF AFFILIATES

Equity in Earnings of Affiliates – decrease of $24.2 million. Equity in Earnings of Affiliates decreased $24.2 million to $19.3 million expense in 2011 from $4.9 million income in 2010. The $24.2 million decrease reflects the impact on the market of new natural gas sources from shale and greater transmission capacity, as well as the impacts of reduced industrial demand for natural gas in the Midwest and is consistent with trends experienced dating back to the latter part of 2010. These conditions have resulted in plentiful natural gas supply and lower and less volatile natural gas prices. Historical basis differences between physical and financial markets and summer and winter prices have narrowed. As a result, there have been reduced opportunities to optimize ProLiance's firm transportation and storage capacity. ProLiance has structured optimization activities to remain flexible to maximize potential opportunities if market conditions improve.

Various profit improvement initiatives are underway, including efforts to lower the cost of pipeline and storage demand costs through ongoing renegotiations. Through these negotiations and by dropping some uneconomical contracts as they expire, pipeline and storage costs have been lowered by $25 million annually starting in 2012. ProLiance had approximately $80 million of annual fixed costs related to its transportation and storage contracts prior to these actions. In addition to this reduction, additional opportunities exist to renegotiate or let lapse the remaining contracts, including those with annual demand costs of $18 million that are scheduled to expire through 2015.

INTEREST CHARGES

Interest Charges – increase of $8.6 million. Interest charges increased $8.6 million to $35.3 million in 2011 from $26.7 million in 2010. This change is primarily due to interest charges, net of amortized bond discount, premium and issuance costs, incurred by assumed and new Water and Wastewater debt since the acquisition of water and wastewater utility assets on August 26, 2011, of $5.0 million and $5.1 million, respectively. Offsetting this increase was interest capitalized on construction projects of $0.9 million, and decreased interest charges of $0.6 million at other business units.

DISCONTINUED OPERATIONS

Loss from Discontinued Operations (Manufacturing Division) – increase of $1.0 million. Loss from Discontinued Operations increased $1.0 million to $5.6 million in 2011 from $4.6 million in 2010. The $1.0 million increase is primarily due to receiving remediation insurance proceeds of $2.3 million in 2010, partially offset by reduced decommissioning activities, employer benefit costs and administrative costs of $1.3 million compared to 2010.

LIQUIDITY AND CAPITAL RESOURCES

Debt and Liquidity

See Notes 6 and 7 of the combined financial statements for a detailed description of the Trusts' outstanding debt and liquidity facilities.

Capital Spending

In 2011, capital expenditures, on an accrual basis, increased to $53.3 million from $27.6 million in 2010. This increase of $25.7 million is summarized as follows (in thousands):

	2011	2010	Change
Citizens Gas	$ **19,505**	$ 19,940	$ (435)
Water	**1,315**	–	1,315
Wastewater	**13,032**	–	13,032
Steam	**7,148**	3,355	3,793
Chilled Water	**10,260**	844	9,416
Oil	**72**	195	(123)
Resources (Westfield Gas)	**77**	68	9
Other	**1,894**	3,227	(1,333)
Total Capital Expenditures	$ **53,303**	$ 27,629	$ 25,674

The Trusts' projected capital spending requirements of $334.5 million for 2012 is summarized as follows (in thousands):

	2012
Citizens Gas	$ 29,904
Water	61,800
Wastewater	213,723
Steam	14,626
Chilled Water	11,931
Oil	403
Resources (Westfield Gas)	2,148
Total Capital Expenditures	$ 334,535

Citizens Gas continues to invest in mains and services to maintain its commitment to modernization of its underground gas distribution system. Citizens Gas had cash and cash equivalents of $55.6 million at September 30, 2011. Citizens Gas expects to meet its capital spending requirements in 2012 through a combination of internally generated funds, available cash and the temporary seasonal use of its credit lines (see Note 7 of the combined financial statements).

The Water business segment has a capital improvement plan to address Water System reliability, specific regulatory requirements, including completion of ultraviolet upgrades at treatment plants and other system upgrades. Water had cash and cash equivalents of $105.5 million at September 30, 2011, including $52.1 million in the construction fund. Water expects to meet its capital spending requirements in 2012 through a combination of internally generated funds, available cash and new issuances of long-term debt.

The Wastewater business segment has a capital improvement plan to meet guidelines of the Combined Sewer Overflows and Long-Term Control Plan and the overall needs of the Wastewater System. See Note 13 of the combined financial statements for additional information regarding the Combined Sewer Overflows and Long-Term Control Plan. The capital improvement plan also includes septic tank elimination projects and other improvements to and expansion of the Wastewater System including normal renewals and replacements. Wastewater had cash and cash equivalents of $179.4 million at September 30, 2011, including $111.0 million in the construction fund. Wastewater expects to meet its capital spending requirements in 2012 through a combination of internally generated funds, available cash, its line of credit (see Note 7 of the combined financial statements) and new issuances of long-term debt.

Citizens Thermal continues to invest in growth at both the Steam and Chilled Water business segments, driven primarily by a contract to provide back-up steam service and chilled water service to the new Wishard Hospital facility (see Note 2.M.a of the combined financial statements for additional information regarding this contract with respect to steam service). In addition, the Steam business segment plans to convert four coal burning boilers to natural gas. At September 30, 2011, cash and cash equivalents of Steam and Chilled Water amounted to $2.6 million and $20.4 million, respectively. Citizens Thermal expects to meet its capital spending requirements in 2012 through a combination of internally generated funds, available cash, its line of credit (see Note 7 of the combined financial statements), its construction loan (see Note 6 of the combined financial statements) and new debt.

DERIVATIVES AND HEDGING

CEG has entered into certain derivative and hedging transactions in 2011 and 2010, respectively. These transactions, accounted for using FASB guidance, are used by Citizens Gas to hedge natural gas prices. Through a combination of fixed-price purchases, caps, collars and storage, Citizens Gas hedges approximately 80 percent of its anticipated system supply gas purchases (see Note 12 of the combined financial statements).

Combined Statements of Operations

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)

		Fiscal Year Ended September 30, 2011	2010
Operating Revenues:	Utility operating revenues	$ 418,794	$ 395,571
	Non-utility operating revenues	44,811	45,133
	Total operating revenues	463,605	440,704
Operating Expenses:	Cost of Goods Sold:		
	Utility cost of goods sold	213,283	232,801
	Non-utility cost of goods sold	12,507	11,689
	Total cost of goods sold	225,790	244,490
	Other operations and maintenance	70,011	59,416
	General and administrative	71,541	59,389
	Curtailment of acquired benefit plans	(49,629)	-
	Depreciation and amortization	43,377	33,703
	Taxes	14,589	10,456
	Total operating expenses	375,679	407,454
Total Operating Income		87,926	33,250
Other Income (Expense)-Net:	Interest income	309	596
	Other	4,335	(9,361)
	Total other income (expense)	4,644	(8,765)
Income Before Equity in Earnings of Affiliates and Interest Charges		92,570	24,485
Equity in Earnings of Affiliates		(19,282)	4,892
Interest Charges:	Interest on long-term debt	31,933	23,846
	Other interest including net premium (discount) amortization	3,396	2,834
	Total interest charges	35,329	26,680
Income from Continuing Operations		37,959	2,697
Loss from Discontinued Operations		(5,553)	(4,588)
Net Income (Loss)		$ 32,406	$ (1,891)

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

Combined Statements of Financial Position

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)

	Assets	At September 30, 2011	2010
Property, Plant and Equipment:	Utility plant, at original cost	$ 4,595,710	$ 768,361
	Accumulated depreciation	2,547,464	410,750
		2,048,246	357,611
	Non-utility plant, at original cost	73,498	69,555
	Accumulated depreciation	20,636	18,169
		52,862	51,386
	Construction work in progress	226,166	15,640
	Property held for future use	1,674	-
		2,328,948	424,637
Intangibles:	Thermal customer contracts, net	101,022	106,809
Investments:	Bond restricted funds	153,175	28,999
	Investment in affiliates	57,139	75,005
	Other	35,768	5,474
		246,082	109,478
Current Assets:	Cash and cash equivalents	391,082	100,568
	Short-term investments	6,000	2,941
	Accounts receivable, less allowance for doubtful accounts of $8,792 and $1,237, respectively	61,616	25,697
	Accrued utility revenue	22,382	4,122
	Natural gas in storage	73,383	77,110
	Materials and supplies	14,152	7,980
	Recoverable gas and fuel costs	1,486	1,631
	Prepayments and deposits	7,073	3,477
	Current assets held for sale and discontinued operations	583	4,476
		577,757	228,002
Deferred Charges and Other Non-Current Assets:	Bond issuance cost, net	30,320	21,575
	Other deferred charges	35,815	18,452
	Non-current assets held for sale and discontinued operations	1,933	1,965
		68,068	41,992
	Total Assets	$ 3,321,877	$ 910,918
	Capitalization and Liabilities		
Capitalization and Non-Current Liabilities:	Retained earnings	$ 285,381	$ 253,836
	Accumulated other comprehensive income (loss)	(139,959)	(130,095)
	Long-term debt (excluding current maturities)	2,519,096	466,522
	Retirement benefits	167,832	100,070
	Contributions in aid of construction	73,168	-
	Other long-term liabilities	23,142	6,372
	Non-current liabilities directly related to assets held for sale and discontinued operations	51,110	47,238
		2,979,770	743,943
Current Liabilities:	Current maturities of long-term debt	48,417	17,105
	Short-term borrowings	56,000	50,000
	Accounts payable and accrued expenses	180,727	65,768
	Accrued taxes	41,558	10,057
	Customer deposits and advance payments	12,812	12,575
	Customer benefits	1,115	1,058
	Refundable gas and fuel costs	433	8,802
	Other	208	118
	Current liabilities directly related to assets held for sale and discontinued operations	837	1,492
		342,107	166,975
Commitments and Contingencies (Note 13):			
	Total Capitalization and Liabilities	$ 3,321,877	$ 910,918

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

Combined Statements of Cash Flows

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)

	Fiscal Year Ended September 30, 2011	2010
Operating Activities:		
Net income (loss)	$ 32,406	$ (1,891)
Depreciation and amortization	46,552	35,602
Amortization of bond discount	1,135	1,087
Equity in earnings of affiliates, net of distributions	19,861	22,948
Allowance for doubtful accounts	(7,555)	1,136
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(44,118)	1,622
Natural gas in storage	3,728	5,567
Recoverable/refundable gas and fuel costs	(7,992)	(6,392)
Prepayments and deposits	(2,597)	(624)
Other current assets	(1,634)	167
Accounts payable and accrued expenses	75,401	(3,035)
Retirement benefits	(38,940)	26,928
Contributions in aid of construction	259	-
Other long-term liabilities	1,399	715
Net change in deferred charges	(41,358)	(29,283)
Other operating activities	90	106
Net cash provided by operating activities of discontinued operations	7,142	6,352
Net cash provided by operating activities	43,779	61,005
Investing Activities:		
Construction expenditures	(45,443)	(26,174)
Purchase of investment securities	(121,290)	(45,508)
Sale and maturity of investment securities	42,648	38,918
Acquisition of water utility, net of cash acquired	58,952	-
Acquisition of wastewater utility, net of cash acquired	(779,120)	-
Other investing activities	2,958	2,303
Net cash used by investing activities	(841,295)	(30,461)
Financing Activities:		
Proceeds from bank line of credit	6,000	3,300
Repayment of bank line of credit	-	(10,000)
Proceeds from long-term debt	1,105,830	-
Principal payments of long-term debt and bond refunding	(100,531)	(80,684)
Proceeds from bond refunding	88,723	75,393
Bond issuance costs	(11,188)	(1,452)
Customer benefits arising from nonregulated operations distributable to gas customers	(804)	(805)
Net cash provided (used) by financing activities	1,088,030	(14,248)
Net change in cash and cash equivalents	290,514	16,296
Cash and cash equivalents at beginning of fiscal year	100,568	84,272
Cash and cash equivalents at end of fiscal year	$ 391,082	$ 100,568

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

Combined Statements of Equity

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
September 30, 2009	**$ 256,588**	**$ (106,087)**	**$ 150,501**
Comprehensive income (loss):			
Net loss	(1,891)		(1,891)
Comprehensive income of unconsolidated investment		593	
Retirement benefit liability changes		(24,601)	(24,008)
Total comprehensive income (loss)			(25,899)
Customer benefit distributions	(861)		(861)
September 30, 2010	**$ 253,836**	**$ (130,095)**	**$ 123,741**
Comprehensive income (loss):			
Net income	$ 32,406		$ 32,406
Comprehensive income of unconsolidated investment		$ 1,994	
Retirement benefit liability changes		(11,858)	(9,864)
Total comprehensive income (loss)			22,542
Customer benefit distributions	(861)		(861)
September 30, 2011	**$ 285,381**	**$ (139,959)**	**$ 145,422**

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

NOTES TO COMBINED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION:

<u>Nature of Operations</u>
Citizens Energy Group and CWA Authority, Inc. (combined, the Trusts) provide energy, water and wastewater utility services to customers in and around Marion County, Indiana.

On August 11, 2010, the Board of Directors (Board) approved the Asset Purchase Agreement (APA) by and among the City of Indianapolis, the Department of Waterworks, and the Department of Public Utilities (acting by and through the Board, as trustee, in furtherance of the public charitable trust for the Water System), and the Board approved the APA by and among the City of Indianapolis, the Sanitary District of the City of Indianapolis, the Department of Public Utilities (acting by and through the Board, as trustee, in furtherance of the public charitable trust for the Wastewater System), and CWA Authority, Inc. (CWA), a new Indiana non-profit corporation created specifically for the purpose of acquiring the Wastewater System. On August 11, 2010, the Board and CWA also filed a Verified Joint Petition with the Indiana Utility Regulatory Commission (IURC), seeking, among other relief, approval of the APAs and the transactions contemplated therein. On July 13, 2011, the IURC issued an order approving the APAs and the transactions contemplated therein. Subsequently, the Board and the Authority finalized the acquisition financing of the Water and Wastewater Systems. The acquisitions closed on August 26, 2011 and the results of the Water and Wastewater Systems are included in the combined financial statements beginning that day. See additional disclosures at Note 3.

Operations of the Citizens Energy Group (CEG) trust include activities in six business segments: Citizens Gas, Water, Steam, Chilled Water, Oil and Citizens Resources (Resources). Steam and Chilled Water comprise the Thermal Energy System (Citizens Thermal or Thermal). Resources includes affiliate joint venture interests, the most significant of which is ProLiance Holdings, LLC (ProLiance) as well as several wholly owned subsidiaries, one of which, Westfield Gas Corporation (Westfield Gas), is operated as a regulated natural gas distribution utility. Operations of the CWA trust include activities for the Wastewater business segment. While each of these business segments offers distinctive products and services to its customers and markets, all are dedicated to customer service excellence in providing energy or utility services. The Trusts' rates and charges for gas, steam, water and wastewater services are regulated by the IURC.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. USE OF ESTIMATES:
The presentation of financial statements in conformity with 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, see Note 11), fair value calculations related to the application of purchasing accounting, and assumptions underlying the actuarial calculations for pension and post-retirement liabilities.

B. PROPERTY, PLANT AND EQUIPMENT, DEPRECIATION AND MAINTENANCE:
Construction costs include costs directly incurred plus overhead allocation relating to payroll, administrative and general costs. Depreciation on Gas, Steam, Water and Wastewater plant is computed on a straight-line basis using rates approved by the IURC. Depreciation on Chilled Water plant is computed on a straight line basis over the estimated remaining useful lives of the various classes of depreciable plant in service. Depreciation on Oil plant is computed on a straight-line basis over the projected productive lives of the oil wells. Periodic depreciation rate studies include a review of depreciable plant remaining useful lives. Maintenance and repairs of property units are charged to expense as incurred. The Trusts utilize the composite method of depreciation. Accordingly,

the original cost of depreciable property and equipment retired or replaced and the cost of removal, less salvage, are charged to accumulated depreciation.

Plant, at original cost, at September 30:

	(In Thousands)		
Utility:	**2011**	2010	Useful Lives
Distribution	**$1,774,352**	$548,691	15 – 65 years
Gas Storage	**84,829**	84,666	33 – 60 years
Production	**43,693**	41,834	50 – 75 years
Transmission	**37,616**	36,193	22 – 60 years
Treatment	**1,248,900**	–	40 – 50 years
Collection	**1,018,022**	–	40 – 50 years
Pumping	**178,648**	–	40 – 50 years
Source of Supply	**125,301**	–	40 – 50 years
General Plant	**84,349**	56,977	5 – 30 years
	$4,595,710	$768,361	
Non-utility:			
Distribution	**$ 29,858**	$ 26,608	40 – 55 years
Production	**43,111**	42,426	5 – 40 years
General Plant	**529**	521	5 – 25 years
	$ 73,498	$ 69,555	

Depreciation expense was $37.5 million and $28.6 million in 2011 and 2010, respectively. Depreciation expense as a percentage of original depreciable cost is as follows:

	2011	2010
Citizens Gas	**3.6%**	3.5%
Water	**2.0%**	–
Wastewater	**2.5%**	–
Steam	**4.0%**	4.8%
Chilled Water	**3.7%**	3.6%
Oil	**21.8%**	20.3%
Resources (Westfield Gas)	**3.8%**	3.5%

Interest capitalized represents the cost of borrowed funds used for construction purposes and is charged to major construction projects during the construction period with a corresponding credit to Other Interest Charges. The total amount of interest capitalized by the Trusts was $0.9 million and $0.1 million in 2011 and 2010, respectively.

C. REVENUE RECOGNITION:

Revenue is recorded when earned, either when the product is delivered or when services are performed. Citizens Gas, Citizens Water and CWA customer billings are rendered on a cycle basis on each working day throughout the month. Westfield Gas customer billings for the Residential rate class are rendered monthly on or near the 10th calendar day of each month, while all remaining Westfield Gas rate classes are billed near the end of the calendar month. The estimated revenue for gas and water 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 customers, with billings rendered as of month-end for all such customers.

D. INVENTORY:

Material and supplies, maintained at average cost, are recorded as inventory when purchased and subsequently charged to expense or capitalized to plant when installed. Natural gas in storage is maintained at weighted average cost of gas.

E. TAXES:

CEG and CWA are generally subject to payroll, property (in the case of CEG and its affiliates), payment in lieu of taxes (PILOT) (in the case of CWA), utility receipts, and other miscellaneous taxes. In general, CEG and CWA are exempt from federal, state and local income taxes as either political subdivisions of the State of Indiana or pursuant to Internal Revenue Code section 115 as applicable. The income of Westfield Gas and Citizens Energy Services Corporation is not currently exempt and is, therefore, subject to federal and state income taxes. Utility receipts taxes are included in rates charged to customers in all rate regulated business units except Wastewater, which is exempt from utility receipts taxes pursuant to Indiana law. Accordingly, CEG includes these taxes received as a component of operating revenue, which totaled $5.5 million and $5.3 million in 2011 and 2010, respectively. The expense associated with these taxes is recorded in operating expenses as taxes.

F. RECOVERABLE (REFUNDABLE) GAS AND FUEL COSTS:

The difference between actual gas costs, including unrealized gains and losses and settled amounts associated with CEG's Price Volatility Mitigation Policy (see Note 12), 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 Steam through rates is deferred and recovered (or refunded) through the fuel adjustment cost (FAC) permitted by the IURC. Steam is authorized to change its FAC factors each quarter as a result of changes in market prices.

G. 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. For regulated business segments, the unamortized portion of bond issuance costs of the refunded bonds is amortized over the life of the refunding bond issue.

H. CASH AND CASH EQUIVALENTS:

For purposes of the Combined Statements of Financial Position and Cash Flows, the Trusts consider investments purchased with a maturity of three months or less to be cash equivalents. The carrying value equals fair value for these financial instruments. Included in cash and cash equivalents on the Combined Statements of Financial Position are money market funds of $240.2 million and $88.4 million at September 30, 2011 and 2010, respectively.

I. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	(In Thousands)	
	2011	2010
Cash paid during the year for:		
Interest	**$ 23,265**	$ 25,452
Non-cash investing activities were as follows:		
Accrued construction work-in-progress	**$ 7,860**	$ 1,455
Comprehensive loss on investment in affiliates	**(1,994)**	(593)
Total non-cash investing activities	**$ 5,866**	$ 862

J. FAIR VALUE MEASUREMENTS:

In accordance with FASB guidance related to fair value measurements and disclosures, the Trusts' 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 following table presents the financial assets and liabilities measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2011 and 2010 (in thousands):

	2011 Fair Value Measurements Using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	**$240,211**	**$** –	**$** –
Bond restricted funds	**153,175**	–	–
Derivatives	**376**	–	–
Total financial assets measured at fair value	**$393,762**	**$** –	**$** –

	2010 Fair Value Measurements Using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	$ 88,434	$ –	$ –
Bond restricted funds	28,999	–	–
Derivatives	468	–	–
Total financial assets measured at fair value	$117,901	$ –	$ –

The fair values of the bond restricted funds and derivative instruments have been determined using quoted prices in an active market. The fair value of derivatives at September 30, 2011 was $0.4 million with a notional dollar value of $0.9 million. The fair value of derivatives at September 30, 2010 was $0.5 million with a notional dollar value of $1.2 million. Gains/losses and fees associated with these derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. See additional disclosure at Note 12. There were no transfers between levels during 2011.

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 $2,661.6 million and $517.2 million at September 30, 2011 and 2010, versus carrying value of $2,567.5 million and $483.6 million at September 30, 2011 and 2010, respectively.

Held-to-maturity short-term investments are held at a carrying value of $6.0 million and $4.9 million as of September 30, 2011 and 2010, respectively, which approximated fair value.

K. ASSET IMPAIRMENT:

Long-lived assets and certain amortizing intangible assets held and used by the Trusts 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 Thermal business segment recorded an impairment charge of $0.9 million in 2011 for the remaining carrying amount of a customer contract intangible asset due to the closing of the customer's Indianapolis plant. See additional disclosure at Note 2.L. No impairment was recorded in 2010. The Board of Directors voted on April 11, 2007, to cease operations of Indianapolis Coke (the Manufacturing segment). Manufacturing (reported as Discontinued Operations) plant assets were $1.9 million at September 30, 2011 and 2010, respectively, representing the estimated remaining salvage value of the plant. See additional disclosure at Note 11.

L. INTANGIBLE ASSETS:

The customer contracts intangible assets are finite lived and amortized on a straight-line basis over their expected useful lives which range from 20 to 30 years other than the contract discussed below. The gross value of intangible customer contracts was $129.7 million at September 30, 2011 and 2010. Accumulated amortization for all intangible customer contracts was $28.7 million and $22.9 million at September 30, 2011 and 2010, respectively. Amortization expense of such assets was $5.8 million and $5.0 million in 2011 and 2010, respectively. Estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows:

	(In Thousands)
2012	$ 4,222
2013	4,222
2014	4,222
2015	4,222
2016	4,222

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. The value at September 30, 2010 of the related customer contract was $1.6 million, representing the estimated remaining discounted cash flows. The remaining carrying amount of the related customer contract was to be amortized over the remaining useful life. On July 1, 2011, the sale of the plant was completed and a $0.9 million impairment charge was recorded on the remaining carrying amount.

M. REGULATORY DEVELOPMENTS, ASSETS AND LIABILITIES:

a. Regulatory Developments

Citizens Gas

On December 16, 2010, Citizens Gas filed a petition with the IURC requesting approval of a new schedule of rates and charges. The petition also requested other approvals, including changes to the general terms and conditions for gas utility service and approval to extend the utility's Universal Service Program, which provides funding for certain low income customers. On June 30, 2011, Citizens Gas and all other parties to the proceeding filed a settlement agreement with the IURC recommending an increase to gas utility operating revenue of approximately $9.3 million or 2.9 percent and resolving all other issues presented in the case. On August 31, 2011, the IURC issued an order approving the settlement agreement in its entirety with an effective date of September 6, 2011.

Westfield Gas

On December 31, 2008, Westfield Gas filed a petition and supporting testimony with the IURC requesting approval of a new schedule of rates and charges and certain other relief. On March 10, 2010, the IURC issued an Order approving an increase to Westfield Gas's operating revenue of $0.6 million or 10.34 percent. The IURC also approved Westfield Gas's proposed Energy Efficiency Adjustment Rider. The IURC Order also approved new terms and conditions for Westfield Gas' provision of gas utility service, authorized Westfield Gas to recover previously incurred costs that had been deferred related to energy efficiency initiatives, approved new depreciation accrual rates, directed Westfield Gas to establish a commercial and industrial transportation rate tariff and approved a Service Agreement between Westfield Gas and CEG. The rates became effective March 15, 2010.

Citizens Thermal Steam

On November 2, 2009, Citizens Thermal filed a petition with the IURC requesting approval of a new schedule of rates and charges to increase its steam utility operating revenue and certain changes to its general terms and conditions for steam utility service. On March 19, 2010, Citizens Thermal, the Indiana Office of Utility Consumer Counselor and certain industrial customers filed a settlement agreement with the IURC, in which the parties agreed that Citizens Thermal should be authorized to increase its operating revenue by $6.2 million or 9.2 percent and implement the proposed changes to its general terms and conditions for steam utility service. Additionally, under the settlement agreement, the settling parties agreed that the steam service contract between Citizens Thermal and National Starch and Chemical Company (National Starch) would be extended for two years from its current expiration date of February 15, 2011. On May 11, 2010, the IURC issued an Order approving the settlement agreement, with one modification described below, and authorized Citizens Thermal to implement the increase agreed to by the settling parties and the changes Citizens Thermal proposed to its general terms and conditions for steam utility service. The IURC directed Citizens Thermal to file a separately docketed proceeding regarding approval of any extension to the steam service contract between Citizens Thermal and National Starch. Citizens Thermal implemented the IURC-approved rate increase and general terms and conditions for steam utility service effective May 17, 2010. On March 17, 2011, the IURC approved an extension of the steam service contract between Citizens Thermal and National Starch.

On March 4, 2011, Citizens Thermal filed a petition seeking approval of a twenty year special contract pursuant to which Citizens Thermal would supply steam service and back-up steam service to a new hospital being constructed by the Health and Hospital Corporation of Marion County. Pursuant to the contract, Citizens Thermal will construct steam utility facilities dedicated to provide back-up steam service to the new hospital facility. Construction of the steam utility facilities is estimated to cost $9.4 million and is expected to be completed in September 2013. The long-term contract provides revenues sufficient to ensure Citizens Thermal recovery of all operating and capital costs related to constructing, operating and maintaining the back-up steam facilities. On July 7, 2011, the IURC issued an order granting the approvals requested in Citizens Thermal's petition.

Water and Wastewater Systems

On August 11, 2010, CEG, CWA, the City of Indianapolis (City) and its Department of Waterworks and Sanitary District filed a petition seeking approval of the acquisitions of the assets of the water utility currently owned and operated by the Department of Waterworks and the assets of the wastewater utility currently owned and operated by the Sanitary District by CEG and CWA, respectively. CWA is an Indiana non-profit corporation formed by CEG, the City and its Sanitary District pursuant to an Interlocal Cooperation Agreement entered into under

Indiana's Interlocal Cooperation Statute. The petition sought approval of the proposed acquisition and other related requests, including authority for CEG to adopt the rates and charges approved by the IURC for the water utility in effect at the time of the closing of the acquisitions and authority for CWA to adopt the schedule of rates and charges approved by the City-County Council of Indianapolis and Marion County for the wastewater utility in effect at the time of the closing. On April 12, 2011, CEG, CWA, the City and certain other parties to the proceeding submitted a settlement agreement for the IURC's approval. On July 13, 2011, the IURC issued an order approving the acquisitions and most aspects of the settlement agreement.

On July 29, 2011, pursuant to the IURC's directive in the July 13, 2011 Order approving the wastewater acquisition, CWA filed a petition seeking approval of the details of an environmental compliance plan recovery mechanism (ECPRM), which would facilitate CWA's recovery of certain costs incurred to comply with a federal consent decree regarding the reduction of combined sewer overflows in the City. CWA expects the IURC to issue an Order in fiscal year 2012. See additional disclosure at Note 3.

b. Regulatory Assets and Liabilities

The Trusts' rates are designed to recover the costs of providing service, thus certain items that would normally be reflected in the Combined Statements of Operations are deferred on the Combined Statements of Financial Position. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to expense through the rate-making process. The balance of these deferred costs was a regulatory asset of $26.1 million and $12.6 million at September 30, 2011 and 2010, respectively, and a regulatory liability of $79.4 million and $14.6 million at September 30, 2011 and 2010, respectively. The Trusts continuously monitor changes in market and regulatory conditions and consider the effects of any changes in assessing the continual applicability of the FASB guidance related to regulated entities.

Regulatory assets were comprised of the following at September 30, 2011 and 2010 (in thousands):

	2011	2010	Recovery/Refund Period	Statement of Financial Position Location
Deferred Acquisition Transaction Costs	**$ 12,621**	$ –	29 – 30 years	Other deferred charges
Decoupled Sales Component	**8,140**	7,296	1 – 15 months	Other deferred charges
Deferred Post-Retirement Benefit Costs	**1,353**	1,804	through 2014	Other deferred charges
Deferred Regulatory Proceeding Costs	**1,188**	447	various	Other deferred charges
Price Volatility Mitigation Program	**868**	1,631	1 – 13 months	Recoverable gas and fuel costs
Deferred Remediation Costs	**833**	390	not yet refunded	Other deferred charges
Deferred Fuel Tracking Adjustments	**618**	–	1 – 18 months	Recoverable gas and fuel costs
Other	**512**	1,033	various	Other deferred charges
Total Regulatory Assets	**$ 26,133**	$ 12,601		

Regulatory liabilities were comprised of the following at September 30, 2011 and 2010 (in thousands):

	2011	2010	Recovery/Refund Period	Statement of Financial Position Location
Contributions in Aid of Construction	**$ 73,168**	$ –	40 – 50 years	Contributions in aid of constr.
Regulatory Credit for Remediation	**5,705**	5,702	not yet refunded	Accts. payable and accr. exp.
Deferred Fuel Tracking Adjustments	**433**	8,802	1 – 18 months	Refundable gas and fuel costs
Other	**137**	126	various	Accts. payable and accr. exp.
Total Regulatory Liabilities	**$ 79,443**	$ 14,630		

N. 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 $3.1 million and $0.6 million in 2011 and 2010, 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.

O. COMPREHENSIVE INCOME (LOSS):
Comprehensive income (loss) is primarily a measure of all changes in equity of an enterprise which result from the transactions or other economic events during the period. This information is reported in the Combined Statements of Equity. CEG's components of accumulated other comprehensive income (loss) include the impact of pension and other post-retirement benefits and its share of ProLiance and Heartland Gas Pipeline, LLC (Heartland) other comprehensive income. CEG records its portion of ProLiance's and Heartland's other comprehensive income as increases or decreases to the investment account with a corresponding adjustment to other comprehensive income.

P. CUSTOMER BENEFIT DISTRIBUTION:
CEG'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 for the Trusts 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 2010, $0.9 million was authorized and approved for distribution as a result of fiscal year 2010 operations and was distributed in calendar year 2011. In September 2011, $0.9 million was authorized and approved for distribution as a result of fiscal year 2011 operations and will be distributable in calendar year 2012.

Q. ADVANCES AND CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC):
The Water business segment may receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Water advances for construction are refundable for up to ten years as new customers begin to receive service or other contractual obligations are fulfilled. Advances not refunded within 10 years are transferred to CIAC. The balance of advances for construction included in the Water segment statement of financial position is $14.3 million at September 30, 2011.

Contributions in aid of construction are permanent collections of plant assets or cash for a particular construction project. The IURC requires the Water and Wastewater business segments to record CIAC. The amounts of such contributions reflect construction costs not recoverable through the ratemaking process. The Trusts depreciate utility plant funded by contributions and amortize contributions balances as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. The values of CIAC, net of amortization, recorded at September 30, 2011 for Water and Wastewater are $51.4 million and $21.8 million, respectively.

R. NEW ACCOUNTING GUIDANCE:
FASB issued guidance which 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 guidance 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 guidance also requires additional disclosures about the enterprise's involvement in a VIE. The Trusts adopted this guidance on October 1, 2010, which did not have any impact on the Trusts' financial position, results of operations or cash flows in the current period.

3. ACQUISITIONS
On August 26, 2011, CEG and CWA closed on its Asset Purchase Agreements dated August 11, 2010, with the City to purchase the Water and Wastewater utility systems serving the Indianapolis area. Major assets acquired include the underground mains and services through which water and wastewater flows are distributed to and from customers, water and wastewater treatment plant facilities, and Morse and Geist reservoirs in central Indiana.

Water System
CEG acquired all of the assets which are used, necessary, and important in the operation of the Water System from the City, all of the assets of the Waterworks Department and certain liabilities and obligations of the City and the Waterworks Department in connection with the Water System. However, under the Water Asset Purchase Agreement, accounts receivable, rights to refunds, unbilled revenue (net of bad debt), trade payables, and any other current asset or liability outstanding at the acquisition date, were generally excluded from the acquisition, with the exception of cash funds relating to assumed debt, unexpended bond funds, retirement plans, and

construction payables. The Water utility operations are reported as the Water business segment (see additional disclosure at Notes 10 and 13).

Wastewater System

CWA acquired all of the assets used, necessary and important in the operation of the Wastewater System and certain liabilities and obligations of the City and the Sanitary District in connection with the Wastewater System. However, under the Wastewater Asset Purchase Agreement, CWA did not acquire certain assets that were the property of the Sanitary District. The majority of these excluded assets were those related to the maintenance and operation of the stormwater system, as well as accounts and notes receivable, rights to refunds, unbilled revenue (net of bad debt), trade payables and generally any other current asset or liability outstanding at the acquisition date, with the exception of cash funds relating to assumed debt, unexpended bond funds, and construction payables. The IURC also ordered CWA to re-designate connection fees recorded as revenue by the City since January 1, 2006 as contributions in aid of construction at acquisition date. The Wastewater utility operations are reported as the Wastewater business segment (see additional disclosure at Notes 10 and 13).

Key Benefits

The Water and Wastewater utilities serving the Indianapolis area require substantial investment over the next several years to comply with federal environmental mandates and replacement of aging infrastructure. Environmental investments include expanded wastewater treatment capacity and construction of a combined sewer overflow capture, storage and conveyance system that will prevent raw sewage overflow into the Indianapolis waterways. Regardless of ownership, the required investments will require rate increases. The benefits of the acquisition of these utilities by CEG include:

A. Operational coordination – savings will be achieved by coordinating the operations and sharing services among the combined Gas, Steam, Chilled Water, Water and Wastewater business segments. While rates to support the needed investments in Water and Wastewater infrastructure will rise from current levels, rates are expected to be lower by the year 2025 than they would have been under other options available to the City.

B. Benefits of Trust structure – CEG's and CWA's structure as Public Charitable Trusts and status as governmental entities include cost and rate benefits relating to tax-exempt financing access and the absence of a need for shareholder returns in rates.

C. Purpose of the Trust – the acquisition is in direct alignment with the vision of the original founders of the Public Charitable Trust which was, among other things, to provide utility services at cost to Indianapolis families and businesses and protect critical Indianapolis utility infrastructure from private monopoly ownership and partisan political control.

Consideration Transferred

The Water System was acquired through the assumption of its long-term debt outstanding at closing of $958.5 million as well as other liabilities related to the Water System. The Wastewater System was acquired by CWA for $797.7 million in cash and $43.9 million in assumed outstanding indebtedness. The Water and Wastewater debt was not assumed at fair market value, as both systems are accounted for as Regulated Operations. Cash paid at closing was $705.7 million, with the remaining $92.0 million paid on September 30, 2011, and was financed through Wastewater utility revenue bonds issued in conjunction with the acquisition closing. (See Note 6 for additional information on long-term debt issued relating to the Wastewater System).

Because the acquisitions of the systems took place late in the current reporting period, the purchase price allocation information is very preliminary. The following table summarizes the provisional purchase price allocation to assets acquired and liabilities assumed for each acquired utility:

	(In Thousands) Water	Wastewater
Property, Plant and Equipment	$1,013,716.3	$ 875,354.8
Investments	77,713.3	3,770.2
Cash	58,951.6	18,534.3
Other Current Assets	3,815.5	4,227.6
Deferred Charges and Other Non-Current Assets	2,476.9	–
Total Assets Acquired	$1,156,673.6	$ 901,886.9
Long-Term Debt (excluding current maturities)	$ 941,204.6	$ 41,803.0
Retirement Benefits	106,702.2	–
Contributions in Aid of Construction	51,488.3	21,420.4
Other Long-Term Liabilities	14,308.4	1,061.7
Current Construction Payables and PILOT	42,970.1	39,947.7
Total Liabilities Assumed	$1,156,673.6	$ 104,232.8
Net Assets Acquired	$ –	$ 797,654.1

The acquisitions resulted in $458.9 million and $(44.4) million in excess purchase price for Water and Wastewater, respectively. Regulated Operations accounting standards requires that utility plant acquired be recorded at its original cost. The difference between original cost and estimated fair market value is the acquisition adjustment, and is reflected in Property, Plant and Equipment for financial reporting purposes. The table shown above is preliminary as the Trusts will obtain additional information for the valuation of the assets acquired and liabilities assumed. The primary areas of purchase price allocations not yet finalized include the assessment of fair values for assets and liabilities and the identification of other intangible assets, including but not limited to, goodwill. Assets and liabilities for which fair values have yet to be assessed include: property, plant and equipment, notes receivable, construction payables, contractual liabilities and environmental contingencies. The Trusts anticipate significant allocation adjustments to result from these assessments.

Related Matters

Accounts receivable and unbilled revenues, less an allowance for bad debt, were settled with the City for both Water and Wastewater, as described in the Transition Services Agreement. These are recorded in both business segments as Accounts Receivable, less Allowance for Doubtful Accounts and Accrued Utility Revenues with an offsetting payable to the City in Accounts Payable and Accrued Expenses. The amounts recorded in the Statements of Financial Position as of August 26, 2011 are summarized below. A payable to the City in the amount of $46.8 million is included in Accounts Payable and Accrued Expenses at September 30, 2011.

	(In Thousands) Water	Wastewater
Accounts Receivable	$17,925.3	$14,350.9
Allowance for Doubtful Accounts	(1,316.7)	(6,120.9)
Accrued Utility Revenues	9,003.6	12,916.3
Net Receivables	$25,612.2	$21,146.3
Accounts Payable and Accrued Expenses	$25,612.2	$21,146.3

Also, CWA agreed to make Wastewater Payments in Lieu of Taxes (PILOT) to the City per a schedule of payments approved by and incorporated into City-County Council Special Ordinance No. 5, 2010, passed pursuant to Indiana Code 36-3-2-10 on May 17, 2010. Annual payments range from a low of $12.8 million in 2014, escalating to a high of $29.4 million in 2023, and then remain in the $22.9 to $27.8 million dollar range until 2039, the final year. This PILOT obligation is accounted for as a property tax. At September 30, 2011, Wastewater recorded $15.3 million in Accrued Taxes relating to the PILOT, of which $1.4 million were expensed in 2011.

See Notes 13.b.2 and 13.b.3 for additional information regarding related contractual matters.

Acquisition Costs

Costs expended to effect the acquisitions included those incurred to bring about the acquisition transaction (Transactional costs), those incurred to acquire the financing (Financing costs) and those incurred to bring about the integration of the utilities into the Trusts (Integration costs). These costs were incurred during fiscal years 2010 and 2011. The company requested and received authority from the IURC to recover certain acquisition costs through rates. The IURC order in Cause No. 43936 allowed for the recovery of Transactional costs of up to $14.0 million, $7.0 million each for Water and Wastewater. As of September 30, 2011, the life-to-date Transactional costs totaled $12.9 million, $6.6 million of which had been expensed in 2010 in accordance with Business Combination accounting standards. Transactional costs were allocated equally to Water and Wastewater and recorded as regulatory assets (Deferred Acquisition Transaction Costs) of these business segments subsequent to the acquisitions. These assets will be amortized to expense over 30 years, consistent with the bond amortization schedules associated with the acquisition financing. This resulted in a $6.6 million reversal in 2011 of such costs that had been expensed in 2010 in General and Administrative expenses in the Other segment (see Other segment disclosure in Note 10).

The IURC order in Cause No. 43936 also allowed for the recovery of all Financing costs incurred. Financing costs for Water and Wastewater were $1.4 million and $8.5 million, respectively. Financing costs were recorded as Deferred Charges. See Notes 2.G and 6 for more information.

The Integration costs totaled $6.3 million and were allocated among all business segments expected to benefit from the acquisition. Of this total, $3.3 million was expensed as General and Administrative expense, while $3.0 million of capital expenditures was charged to Property, Plant and Equipment.

4. BOND RESTRICTED FUNDS

Under the terms of various trust indentures, the Trusts are required to maintain bond restricted funds. These bond restricted funds are invested in short-term cash-equivalent securities. Due to the nature of these investments, cost approximates fair market value of $153.2 million and $29.0 million at September 30, 2011 and 2010, respectively. Gross deposits and amounts acquired to the bond restricted fund investments during 2011 and 2010 were $163.9 million and $42.6 million, respectively. The 2011 balances increased significantly compared to 2010 due to the debt associated with the acquisition of the Water and Wastewater utilities. Gross deposits and amounts acquired to bond restricted fund investments for Water and Wastewater in 2011 were $124.0 million. There were no realized gains or losses associated with the sales of these investments.

5. INVESTMENT IN UNCONSOLIDATED AFFILIATES

ProLiance, an energy marketing, management services, asset development and operations company, is an affiliation of equal ownership between Resources and Vectren Energy Marketing & Services, Inc., a wholly owned subsidiary of Vectren Corporation (Vectren), formed in March 1996. Effective June 1, 2002, Vectren and CEG agreed to split profits 61 percent and 39 percent, respectively. CEG purchased $166.5 million and $175.6 million of gas from ProLiance in 2011 and 2010, respectively. In addition, CEG received less than $0.1 million in 2011 and 2010 from ProLiance as reimbursement for various general and administrative expenses. At September 30, 2011 and 2010, CEG owed ProLiance $10.9 million and $9.8 million, respectively, for gas purchased. ProLiance is accounted for under the equity method.

Remittance Processing Services, LLC (RPS), an affiliation of equal ownership between Resources and IPALCO Enterprises, Inc. (IPALCO) was formed in August 1996 and began providing services in February 1997. RPS provides payment processing services for CEG, IPALCO and others. CEG paid $0.3 million to RPS for services in 2011 and 2010. CEG received less than $0.1 million for reimbursement of payroll, employee benefit, and various general and administrative expenses paid on behalf of RPS in 2011 and 2010. RPS is accounted for under the equity method.

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. CEG received storage rental fees from Heartland of $0.6 million in 2011 and 2010.

Resources has a minority interest in BHMM Energy Services, LLC (BHMM), an entity created to provide energy facilities management services at Indianapolis Airport Authority. BHMM is accounted for under the equity method.

Summarized financial information of unconsolidated affiliates is presented below (in thousands).

	2011 ProLiance	2011 Other	2011 Total	2010 ProLiance	2010 Other	2010 Total
Condensed Statements of Operation:						
Revenues	**$1,476,721**	**$ 7,164**	**$1,483,885**	$1,533,412	$ 7,201	$1,540,613
Operating income (loss)	**(48,555)**	**1,916**	**(46,639)**	10,157	2,266	12,423
Net income (loss)	**(51,264)**	**1,448**	**(49,816)**	10,421	1,761	12,182
Condensed Statements of Financial Position:						
Current assets	**$ 300,287**	**$ 3,267**	**$303,554**	$ 336,433	$ 3,116	$ 339,549
Non-current assets	**56,438**	**19,278**	**75,716**	59,641	19,887	79,528
	$ 356,725	**$22,545**	**$379,270**	$ 396,074	$23,003	$ 419,077
Current liabilities	**$ 217,871**	**$ 1,774**	**$219,645**	$ 209,432	$ 1,764	$ 211,196
Non-current liabilities	**3,642**	**6,167**	**9,809**	5,297	6,854	12,151
Equity	**135,212**	**14,604**	**149,816**	181,345	14,385	195,730
	$ 356,725	**$22,545**	**$379,270**	$ 396,074	$23,003	$ 419,077

6. LONG-TERM DEBT

Long-term debt consisted of the following:

	(In Thousands) 2011	2010
Citizens Gas		
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 Series 2008A, Second Lien Multi-Mode Revenue Bonds, 5.00%, due 2027 to 2030	**55,850**	55,850
Gas Utility Distribution System Series 2008B, Second Lien Multi-Mode Revenue Bonds, 5.25%, due 2025 to 2027	**55,855**	55,855
Gas Utility Distribution System Series 2008C, Second Lien Multi-Mode Revenue Bonds, 4.00% to 5.25%, due 2010 to 2021	**62,965**	65,680
Gas Utility Distribution System Series 2009A, Second Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2009 to 2018	**21,500**	29,955
Gas Utility Distribution System Series 2010A, Second Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2024	**59,975**	59,975
Net Unamortized Bond Premiums and Discounts	**4,590**	4,937
Current Maturities	**(11,695)**	(11,170)
Subtotal Citizens Gas Long-Term Debt	**309,600**	321,642
Water		
Water Utility Net Revenue Bonds Series 2011A, 4.375% to 5.500%, due 2011 to 2014	**19,730**	–
Water Utility Net Revenue Bonds Series 2011B, 4.00% to 5.00%, due 2011 to 2029	**69,915**	–
Water Utility Net Revenue Bonds Series 2011C, 5.50%, due 2011 to 2022	**77,830**	–
Water Utility Net Revenue Bonds Series 2011D, 5.25%, due 2022 to 2025	**70,410**	–
Water Utility Net Revenue Bonds Series 2011E, 3.75% to 5.25%, due 2011 to 2038	**101,705**	–
Water Utility Net Revenue Bonds Series 2011F, 4.00% to 5.00%, due 2012 to 2038	**559,890**	–

	(In Thousands) 2011	2010
Water Utility Net Revenue Bonds Series 2011G, 2.00% to 5.125%, due 2012 to 2041	**58,790**	–
District Subordinate Taxable Notes, Series 2010	**315**	–
Second Lien Water Utility Revenue Bonds Series 2011B, 3.00%, due 2014	**42,905**	–
Net Unamortized Bond Premiums	**1,753**	–
Current Maturities	**(17,380)**	–
Subtotal Water Long-Term Debt	**985,863**	–
Wastewater		
CWA Wastewater Utility Revenue Bonds Series 2011A, 2.00% to 5.25%, due 2012 to 2041	**678,480**	–
CWA Wastewater Utility Revenue Bonds Series 2011B, 5.00% to 5.25%, due 2014 to 2041	**268,015**	–
CWA Second Lien Wastewater Utility Revenue Bonds Series 2011C, 3.00%, due 2016	**45,990**	–
Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds, see table below	**43,903**	–
Net Unamortized Bond Premiums	**49,021**	–
Current Maturities	**(2,100)**	–
Subtotal Wastewater Long-Term Debt	**1,083,309**	–
Thermal		
Thermal Energy System Revenue Bonds Series 2001A, 3.80% to 5.50%, due 2004 to 2021	**–**	86,745
Thermal Energy System Series 2008, Multi-Mode Revenue Bonds, 5.00%, due 2022 to 2026	**50,070**	50,070
Thermal Energy System Revenue Refunding Bonds Series 2010A, 2.00% to 5.00%, due 2010 to 2029	**10,620**	10,970
Thermal Energy System Revenue Refunding Bonds Series 2010B, 1.50% to 5.00%, due 2011 to 2021	**78,135**	–
Wishard Construction Loan (based on LIBOR plus a margin, with a rate of 0.24% at September 30, 2011), due 2012	**10,447**	700
Net Unamortized Bond Premiums and Discounts	**8,294**	2,330
Current Maturities	**(17,242)**	(5,935)
Subtotal Thermal Long-Term Debt	**140,324**	144,880
Total Long-Term Debt	**$2,519,096**	$466,522

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

	(In Thousands)
2012	$48,417
2013	49,773
2014	96,905
2015	60,886
2016	68,529
Thereafter	2,179,030
Total principal maturities	$2,503,540

Citizens Gas

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 Citizens Gas, Oil, Discontinued Operations and Citizens Resources segments. The Gas Utility Distribution System (GUDS) Second Lien Revenue Refunding Bonds, Series 2008A, Series 2008B, Series 2008C, Series 2009A and Series 2010A, are secured by and payable from the income and revenues of the GUDS as provided for in the respective trust indentures. 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 Series 2010A bonds were issued on March 12, 2010 in conjunction with the refunding of the remaining Series 1998A bonds. All of the Second Lien bonds are subordinate to the bonds issued under the 1986 trust indenture.

Water

The Indianapolis Local Public Improvement Bond Bank (Bond Bank) agreed to exchange its Department of Waterworks Bonds for identical bonds of CEG. CEG agreed to provide certain information on request from the Bond Bank and to pay the Bond Bank the costs of administration of the CEG Bonds acquired by the Bond Bank and services performed by the Bond Bank, the amount and nature of such costs of administration to be established in consultation with CEG.

The bonds issued in connection with the acquisition of the Water System are governed by bond indentures dated as of August 1, 2011. These bonds are secured by and payable from the net revenues of the Water System. Upon acquisition of the Water System on August 26, 2011, CEG also succeeded to the obligations of the Indianapolis Waterworks Department with respect to the $958.3 million of Bond Bank bonds supported by the net revenues of the Water System and $0.3 million of District Subordinate Taxable Notes. The Bond Bank debt included seven series of bonds, issued between 2002 and 2011. Maturity dates range from 2012 to 2041 and coupon rates range from 1.5 percent to 5.75 percent.

On August 26, 2011, the Water business segment also issued $42.9 million of Second Lien Water Utility Revenue Bonds, Series 2011B, due 2014. The Second Lien bonds are secured and payable from the net revenues of the Water System as provided in the respective bond indenture dated August 26, 2011. The series was issued at a premium of $1.8 million. The new debt was issued as three-year fixed rate bonds with a bullet maturity on October 1, 2014. The coupon rate is 3 percent. The proceeds of this series will be used to fund capital improvements, working capital and the initial start-up costs related to the acquisition and operation of the Water System.

Wastewater

The bonds issued to fund the acquisition, start-up expenses, and capital expenditures of the Wastewater System were pursuant to Trust indentures dated as of August 1, 2011. The First Lien and Second Lien bonds are secured by and payable from the net revenues of the Wastewater System. On August 26, 2011, CWA issued $992.5 million of Wastewater Utility Revenue Bonds. The First Lien Wastewater Utility Revenue Bonds, Series A, were issued in the amount of $678.5 million. The series was issued at a premium of $38.5 million. The debt was issued as fixed rate serial and term bonds maturing between 2012 and 2041, with coupon rates ranging from 2 percent to 5.25 percent. The proceeds from the 2011A Series were used to fund a portion of the acquisition of the Wastewater System, to fund the debt service reserve fund for the 2011A Series and to fund capital improvements for the Wastewater System. The Second Lien Wastewater Utility Revenue Bonds, Series 2011B, were issued in the amount of $268.0 million. The series was issued at a premium of $8.2 million. The debt was issued as fixed rate serial and term bonds maturing between 2014 and 2041, with coupon rates ranging from 5 percent to 5.25 percent. The proceeds from the 2011B Series were used to provide a portion of the funding for the acquisition of the Wastewater System and to fund a debt service reserve for the series. The Second Lien Wastewater Utility Revenue Bonds, Series 2011C, were issued in the amount of $46.0 million. The series was issued at a premium of $2.3 million. The debt was issued as a five-year fixed rate bond with a bullet maturity of October 1, 2016. The coupon rate is 3 percent. The proceeds of this series will be used to fund capital improvements, working capital and the initial start-up costs related to the acquisition and operation of the Wastewater System.

Upon acquisition, CWA also agreed to make payments to the City in order to satisfy the annual debt service payments on the outstanding principal amount of the General Obligation Sanitary District Bonds listed below. The principal amounts outstanding at September 30, 2011 are as follows:

	(In Thousands)
Wastewater General Obligation Bonds Series 1993A, 5.90%, due 2012 to 2013	**$ 6,188**
Wastewater General Obligation Bonds Series 2003A, 5.250%, due 2012 to 2018	**7,168**
Wastewater General Obligation Bonds Series 2007C, 5.00%, due 2014 to 2018	**28,570**
Wastewater General Obligation Bonds Series 2007D, 0.00%, due 2012 to 2013	**316**
Wastewater General Obligation Bonds Series 2009A, 2.75% to 4.00%, due 2012 to 2015	**1,661**
Total Wastewater General Obligation Bond Debt	**$43,903**

Thermal

The Thermal Energy System Revenue Bonds, Series 2001A and 2001B were issued pursuant to a Thermal Energy System trust indenture dated January 1, 2001. The Thermal Energy System Revenue Bonds, Series 2008 and Series 2010B were issued on April 10, 2008 (Series 2008) and October 28, 2010 (Series 2010B) in conjunction with the refunding of the Series 2001B and Series 2001A bonds, respectively. The Series 2010A bonds were issued on March 12, 2010 in order to refund approximately $10.0 million of interim indebtedness incurred by the Steam business segment. 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.

On October 28, 2010, Thermal issued $78.1 million of Thermal Energy System, First Lien Revenue Refunding Bonds, Series 2010B, due 2011 to 2021. This series was issued at a premium of $9.3 million. The new debt was issued as fixed rate serial bonds ranging from a coupon rate of 1.5 percent for bonds maturing in 2011, increasing to 3 percent for bonds maturing through 2013, 4 percent for bonds maturing in 2014 and 5 percent for maturities thereafter. The proceeds of this series were used to refund the remaining Thermal Energy System Revenue Bonds, Series 2001A in the aggregate principal amount of $81.2 million.

Thermal entered into a $30.0 million, 2 year, variable interest construction loan during 2010 with J.P. Morgan Chase, the proceeds of which will be used for construction of steam and chilled water facilities at a new customer's location. The loan is secured by a subordinate lien on the income and revenues of the Thermal Energy System. At September 30, 2011 and 2010, the amount borrowed was $10.4 million and $0.7 million, respectively.

Covenants

The Trusts are obligated to satisfy certain covenants, including meeting certain minimum debt service coverage requirements for each bond issue. The Trusts' debt service coverage ratios, as defined by each indenture, are summarized as follows for 2011:

	Minimum Covenant Requirement	2011 Actual
GUS Revenue Refunding Bonds Series 1986B	1.40	10.51
GUDS Revenue Refunding Bonds Series 2008A, Series 2008B, Series 2008C, Series 2009A and Series 2010A Second Lien Multi-Mode Revenue and Revenue Refunding Bonds	1.00	1.58
Water Utility Net Revenue Bonds Series 2011A-2011G	1.10	N/A
Second Lien Water Utility Revenue Bonds Series 2011B	1.10	N/A
CWA Wastewater Utility Revenue Bonds Series 2011A-2011B	1.20	N/A
Second Lien CWA Wastewater Utility Revenue Bonds Series 2011C	1.10	N/A
Thermal Energy System Revenue Bonds Series 2008, 2010A and 2010B	1.00	1.74

In addition, the Trusts have covenants specifying in the event that debt service covenants cannot be met, the Trusts shall take any appropriate action under the law and within its power, to generate income and revenues of the GUS, GUDS, Water System, Wastewater System and Thermal Energy System, respectively, in the amounts required to satisfy the covenants for subsequent fiscal years. These actions include, but are not limited to, the filing of a proceeding seeking additional revenues or other relief before the IURC. At September 30, 2011, the Trusts were in compliance with all debt covenants. The first available compliance measurement for the Water and CWA bonds will be in September 2012.

7. SHORT-TERM BORROWINGS

Citizens Gas had $50.0 million in commercial paper outstanding at September 30, 2011 and 2010. The commercial paper has a maximum maturity of 270 days and is to be re-marketed in October 2011. 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 two working capital lines of credit amounting to $50.0 million total working capital lines of credit available on an annual basis to fund such needs. As of September 30, 2011, Citizens Gas had no amount outstanding under such lines of credit, so the entire amount remained available as specified above. One of the $25.0 million lines of credit was renewed for a three year term in July 2010 with an interest rate of LIBOR plus 1.125 percent. The other $25.0 million line of credit was established for a two year term in August 2010 with an interest rate of LIBOR plus 1.50 percent.

Concurrent with closing of the acquisition of the Wastewater System on August 26, 2011, the Wastewater business segment established a line of credit with Wells Fargo, N.A. The line of credit has a capacity of $145.0 million and is intended to be used to fund Wastewater capital expenditures. As of September 30, 2011, Wastewater had no amount outstanding under such lines of credit, so the entire amount remained available as specified above. The commitment fee on the line as of September 30, 2011 is 0.3 percent. The commitment fee is based on the capacity of the line of credit and the applicable rate of interest on balances drawn on the line was 70 percent of LIBOR plus 0.8 percent as of September 30, 2011. The commitment fee and applicable rate of interest may increase or decrease over the life of the facility if changes occur to the First Lien credit ratings of the Wastewater System. The line of credit will mature on August 26, 2014.

Thermal extended its $10.0 million working capital line of credit with J.P. Morgan Chase in June 2011 for an additional three years in order to supplement working capital requirements. As of September 30, 2011, Thermal had $6.0 million outstanding under such lines of credit, thus $4.0 million remained available as specified above. The $10.0 million Thermal line of credit has a maturity date of June 2014 with an interest rate of LIBOR plus 1.42 percent.

8. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as shown in the accompanying Combined Statements of Financial Position are comprised of the following components at September 30, 2011 and 2010, respectively:

	(In Thousands)	
	2011	2010
Accounts payable	**$110,955**	$13,539
Accrued interest	**25,312**	8,035
Customer credit balances	**15,627**	18,359
Salaries and employee benefits	**12,589**	10,736
Related party payable – ProLiance	**10,734**	9,782
Post-retirement benefits	**4,336**	1,914
Other	**1,174**	3,403
Total accounts payable and accrued expenses	**$180,727**	$65,768

9. RETIREMENT PLANS

CEG has a non-contributory defined benefit pension plan covering substantially all full-time employees. The policy of CEG 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. CEG also assumed a defined-benefit pension plan for certain Water bargaining employees, transferred from Veolia Water North America to CEG on August 26, 2011. CEG elected to freeze the plan as of September 30, 2011, and the participants are no longer accruing benefits.

In addition to providing defined benefit pension plan benefits, CEG also offers other retirement benefits to eligible employees including a pension restoration plan, a supplemental benefits plan, thrift savings plans and post-retirement health care benefits. The pension restoration plan provides retirement benefits for employees whose retirement benefit exceeds the maximum allowable benefit under the Internal Revenue Code for qualified pension plans and thrift plans. The supplemental benefit plan was assumed by CEG on August 26, 2011. It covers certain former employees of Indianapolis Water Company.

The thrift savings plans are defined contribution plans covering most employees. CEG matches a portion of the contributions made by the employees to the savings plans. The cost to CEG for its matching portion was $1.2 million in 2011 and 2010.

CEG 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. Certain active non-bargaining employees, previously on the legacy Water post-retirement health plan, will receive benefits for life upon retirement. The percentage of premiums paid by CEG is dependent upon the age and years of service at the date the employee retires. The post-retirement benefit plans are unfunded. CEG accrues the expected cost of post-retirement health benefits during the years in which employees render service. This expense was $1.0 million and $3.5 million for 2011 and 2010, 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, CEG 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, $4.0 million and $3.6 million through September 30, 2011 and 2010, respectively, leaving a deferred balance of $1.4 million and $1.8 million as of September 30, 2011 and 2010, respectively. Post-retirement benefit costs applicable to the Water, Thermal, Manufacturing and Oil segments have not been deferred.

CEG also assumed responsibility for benefits of the legacy Water plan with respect to employees that were retired (as well as eligible dependents) as of August 26, 2011. These benefits continue for the life of the participants. A restricted funds trust (Grantor Trust) had been established by previous owners of the Water operations to fund retiree medical benefit obligations of the legacy Water plan. Contributions to the trust had been made periodically by the previous owners. CEG acquired the Grantor Trust as part of the acquisition and continues to make contributions to the trust from operating revenues of the Water System as authorized by the IURC. Benefits are paid from the Grantor Trust.

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 Trusts' Combined Statements of Financial Position at September 30, 2011 and 2010:

	(In Thousands)		(In Thousands)	
	2011	2010	**2011**	2010
Projected Benefit Obligation (PBO)	**$ 285,452**	$253,833	**$ 76,642**	$ 31,534
Plan assets at fair value	**175,710**	168,979	**–**	–
Funded status	**$(109,742)**	$(84,854)	**$(76,642)**	$(31,534)
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Current liability	**$ –**	$ –	**$ (4,875)**	$ (2,509)
Non-current liability	**(109,742)**	(84,854)	**(71,767)**	(29,025)
Net amounts recognized	**$(109,742)**	$(84,854)	**$(76,642)**	$(31,534)
Amounts in Accumulated Other Comprehensive Income (AOCI) not in costs*:				
Unrecognized transition obligation	**$ –**	$ –	**$ 1,192**	$ 1,780
Unrecognized prior service cost	**2,808**	3,169	**(4,668)**	433
Unrecognized actuarial loss	**124,875**	108,211	**10,278**	8,810
Total Amounts in AOCI	**$127,683**	$111,380	**$ 6,802**	$ 11,023

* The amounts expected to be recognized in 2012 out of AOCI, are $7.7 million for the defined benefit pension plan and $0.8 million for the other benefits.

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

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2011	2010	**2011**	2010
Service cost-benefits attributed to service during the period	**$ 6,458**	$ 5,152	**$1,163**	$ 767
Interest cost	**12,476**	11,866	**1,494**	1,177
Actual loss (gain) on assets	**2,896**	(11,203)	–	–
Amortization of transition obligation	–	–	**588**	589
Amortization of prior service cost	**362**	479	**135**	127
Amortization of loss	**6,727**	5,106	–	–
Deferred actuarial (loss) gain	**(15,609)**	(733)	**224**	(131)
Net periodic benefit cost	**13,310**	10,667	**3,604**	2,529
Curtailment expense (gain)** loss	**(3,387)**	–	**(46,242)**	1,413
Adjustment for termination benefit	–	–	**–**	1,432
Total expense for the year	**$ 9,923**	$ 10,667	**$(42,638)**	$ 5,374

** The aforementioned pension plan freeze as of September 30, 2011 resulted in a curtailment gain of $3.4 million. A curtailment gain of $46.2 million was recognized when the benefits of 177 active participants of the aforementioned legacy Water post-retirement benefit plan were reduced and prior service was eliminated upon transfer to the CEG post-retirement benefit plan. FASB guidance provides that planned or anticipated amendments, terminations or curtailments are not reflected in the liability assumed as of the acquisition date. Such activities are recognized in the post-combination financial statements in accordance with FASB guidance.

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

	CEG Defined Benefit Pension		CEG Other Benefit	
	2011	2010	**2011**	2010
Average discount rate	**4.54%**	5.00%	**4.13%**	4.30%
Rate of increase in future compensation levels	**3.50%**	3.50%	–	–

	Water Defined Benefit Pension	
	2011	2010
Average discount Rate	**4.21%**	–
Rate of increase in future compensation levels	**3.50%**	–

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

	CEG Defined Benefit Pension		CEG Other Benefit	
	2011	2010	**2011**	2010
Average discount rate	**5.00%**	5.50%	**4.30%**	5.18%
Rate of increase in future compensation levels	**3.50%**	3.50%	–	–
Expected long-term rate of return on assets	**6.71%**	7.50%	–	–

	Water Defined Benefit Pension	
	2011	2010
Average discount rate	**4.47%**	–
Rate of increase in future compensation levels	**3.50%**	–
Expected long-term rate of return on assets	**6.71%**	–

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

	CEG Other Benefit	
	2011	2010
Health care cost trend rate assumed for next year	**8.50%**	9.00%
Rate to which the cost trend rate is assumed to decline	**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate	**2018**	2018

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

Assets of the defined benefit pension plan consist principally of investments in long-term and intermediate-term fixed income securities and common stocks. The measurement date of September 30 was used to determine the pension cost for the years 2011 and 2010.

The following table presents the pension assets measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2011 and 2010 (in thousands):

Description	**2011 Fair Value Measurements Using** Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension Assets:			
Cash equivalents	**$ 9,257**	$ –	$ –
Equities	**93,532**	–	–
Fixed income	**72,265**	–	–
Other assets	**656**	–	–
Total pension assets measured at fair value	**$175,710**	$ –	$ –

Description	2010 Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension Assets:			
Cash equivalents	$ 4,254	$ –	$ –
Equities	100,175	–	–
Fixed income	63,161	–	–
Other assets	1,389	–	–
Total pension assets measured at fair value	$168,979	$ –	$ –

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

CEG's pension plan weighted-average asset allocation as of September 30, 2011 and 2010, by asset category is as follows:

	2011	2010
Equity securities	**57%**	60%
Debt securities	**38%**	37%
Other	**5%**	3%
Total	**100%**	100%

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

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

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2011	2010	**2011**	2010
Employer contributions	**$ 13,349**	$9,817	**$ 2,685**	$ 1,828
Participant contributions	–	–	**504**	551
Benefits paid	**11,809**	11,166	**3,190**	2,379

CEG expects to contribute, at a minimum, $14.8 million to the pension plans for 2012. 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)
2012	$ 12,472	$ 4,875
2013	13,028	4,802
2014	13,201	4,945
2015	14,099	5,084
2016	14,563	5,280
Years 2017-2021	85,029	30,676

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) **2011**	2010
Effect on total of service and interest cost	**$ 856**	$ 221
Effect on post-retirement benefit obligation	**8,214**	2,587

10. FINANCIAL SEGMENT INFORMATION

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

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.

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

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

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 affiliate joint venture interests, the most significant of which is ProLiance, 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 Trusts and to ultimately provide enhanced benefits to the Trusts' beneficiaries.

Other includes certain non-profit instrumentalities, as well as, advertising and philanthropic costs that are not recoverable through rates and are funded by contributions from non-regulated segments. Other also includes a shared services group comprised of various administrative and operational departments that provides support services to each of the Trusts' business segments, certain affiliates and the Trusts as a whole, and charges the associated cost of the services to the appropriate segment. Management reviews the allocation methodology for the shared services group on a regular basis and refines the methodology as necessary. Additionally, Other includes expensed costs relating to Water and Wastewater asset acquisition activities in 2010, which became probable of recovery in 2011 and have been reversed and recorded as a regulatory asset. The regulatory asset could not be recorded until receipt of the IURC Order approving the acquisition which is why such costs were necessarily expensed in 2010 (see additional disclosures at Notes 2.M.a and 3). The former Manufacturing business segment has been reported as Discontinued Operations and is also included in Other.

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

Segment information as of and for the years ended September 30, 2011 and 2010 are summarized as follows:

Segment Footnote - Combined Statement of Operations

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)
For Fiscal Year Ended September 30, 2011

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Total
Operating revenues:									
Utility operating revenues	$309,362	$ 20,540	$ 15,418	$ 68,796	$ -	$ -	$ 4,678	$ -	**$ 418,794**
Non-utility operating revenues	-	-	-	-	38,506	6,157	148	-	**44,811**
Total operating revenues	309,362	20,540	15,418	68,796	38,506	6,157	4,826	-	**463,605**
Operating expenses:									
Cost of goods sold:									
Utility cost of goods sold	172,969	-	-	37,931	-	-	2,383	-	**213,283**
Non-utility cost of goods sold	-	-	-	-	12,507	-	-	-	**12,507**
Total cost of goods sold	172,969	-	-	37,931	12,507	-	2,383	-	**225,790**
Other operations and maintenance	39,819	3,536	5,062	14,695	4,754	1,333	215	597	**70,011**
General and administrative	55,090	4,140	2,225	9,238	3,547	418	3,685	(6,802)	**71,541**
Curtailment of Acquired Benefit Plans	-	(49,629)	-	-	-	-	-	-	**(49,629)**
Depreciation and amortization	17,990	2,588	4,975	5,038	5,490	327	413	6,556	**43,377**
Taxes	7,959	1,473	1,423	1,140	1,718	102	664	110	**14,589**
Total operating expenses	293,827	(37,892)	13,685	68,042	28,016	2,180	7,360	461	**375,679**
Total operating income (loss)	15,535	58,432	1,733	754	10,490	3,977	(2,534)	(461)	**87,926**
Other income (expense)-net:									
Interest income	199	18	-	-	3	1	89	(1)	**309**
Other	83	12	-	(80)	15	-	3	4,302	**4,335**
Total other income (expense)	282	30	-	(80)	18	1	92	4,301	**4,644**
Income (loss) before equity in earnings of affiliates and interest charges	15,817	58,462	1,733	674	10,508	3,978	(2,442)	3,840	**92,570**
Equity in earnings of affiliates	-	-	-	-	-	-	(19,282)	-	**(19,282)**
Interest charges:									
Interest on long-term debt	15,844	5,030	4,974	2,906	3,179	-	-	-	**31,933**
Other interest including net premium (discount) amortization	2,431	(10)	(512)	(41)	1,551	-	1	(24)	**3,396**
Total interest charges	18,275	5,020	4,462	2,865	4,730	-	1	(24)	**35,329**
Income (loss) from continuing operations	(2,458)	53,442	(2,729)	(2,191)	5,778	3,978	(21,725)	3,864	**37,959**
Loss from discontinued operations	-	-	-	-	-	-	-	(5,553)	**(5,553)**
Net income (loss)	$ (2,458)	$ 53,442	$ (2,729)	$ (2,191)	$ 5,778	$3,978	$ (21,725)	$ (1,689)	**$ 32,406**

Segment Footnote - Combined Statement of Operations

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)
For Fiscal Year Ended September 30, 2010

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Total
Operating revenues:									
Utility operating revenues	$321,829	$ -	$ -	$ 69,790	$ -	$ -	$ 3,952	$ -	$ 395,571
Non-utility operating revenues	-	-	-	-	37,762	5,218	2,153	-	45,133
Total operating revenues	321,829	-	-	69,790	37,762	5,218	6,105	-	440,704
Operating expenses:									
Cost of goods sold:									
Utility cost of goods sold	188,040	-	-	42,414	-	-	2,347	-	232,801
Non-utility cost of goods sold	-	-	-	-	11,689	-	-	-	11,689
Total cost of goods sold	188,040	-	-	42,414	11,689	-	2,347	-	244,490
Other operations and maintenance	39,418	-	-	14,309	4,105	1,338	246	-	59,416
General and administrative	47,881	-	-	8,036	3,193	378	4,806	(4,905)	59,389
Depreciation and amortization	18,030	-	-	4,420	5,355	410	372	5,116	33,703
Taxes	7,166	-	-	1,099	1,704	66	266	155	10,456
Total operating expenses	300,535	-	-	70,278	26,046	2,192	8,037	366	407,454
Total operating income (loss)	21,294	-	-	(488)	11,716	3,026	(1,932)	(366)	33,250
Other income (expense)-net:									
Interest income	516	-	-	1	1	2	73	3	596
Other	129	-	-	-	(328)	-	(167)	(8,995)	(9,361)
Total other income (expense)	645	-	-	1	(327)	2	(94)	(8,992)	(8,765)
Income (loss) before equity in earnings of affiliates and interest charges	21,939	-	-	(487)	11,389	3,028	(2,026)	(9,358)	24,485
Equity in earnings of affiliates	-	-	-	-	-	-	4,892	-	4,892
Interest charges:									
Interest on long-term debt	16,265	-	-	3,369	4,049	-	163	-	23,846
Other interest including net premium (discount) amortization	2,815	-	-	70	(51)	-	-	-	2,834
Total interest charges	19,080	-	-	3,439	3,998	-	163	-	26,680
Income (loss) from continuing operations	2,859	-	-	(3,926)	7,391	3,028	2,703	(9,358)	2,697
Loss from discontinued operations	-	-	-	-	-	-	-	(4,588)	(4,588)
Net income (loss)	$ 2,859	$ -	$ -	$ (3,926)	$ 7,391	$ 3,028	$ 2,703	$ (13,946)	$ (1,891)

Segment Footnote - Combined Statement of Financial Position

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)
At September 30, 2011

	Citizens Gas	Water	Waste-Water	Steam	Chilled Water	Oil	Resources	Other	Total
Assets									
Property, Plant and Equipment	$ 292,046	$ 1,013,125	$ 884,022	$ 56,414	$ 60,778	$ 712	$ 8,784	$ 13,067	**$ 2,328,948**
Intangibles	-	-	-	23,055	77,967	-	-	-	**101,022**
Investments	18,747	84,419	72,420	5,537	5,309	-	59,025	625	**246,082**
Current Assets	150,288	138,434	212,194	13,758	15,961	978	34,395	11,749	**577,757**
Deferred Charges and Other Non-Current Assets	30,635	10,631	14,589	2,929	1,187	82	615	7,400	**68,068**
Total Assets	$ 491,716	$ 1,246,609	$ 1,183,225	$ 101,693	$ 161,202	$ 1,772	$ 102,819	$ 32,841	**$ 3,321,877**
Capitalization and Liabilities									
Retained Earnings and Accumulated OCI	$ 2,857	$ 57,331	$ (2,729)	$ 5,174	$ 65,222	$ 1,137	$ 100,296	$ (83,866)	**$ 145,422**
Long-Term Debt	309,600	985,864	1,083,308	66,870	73,454	-	-	-	**2,519,096**
Retirement Benefit and Other Long-Term Liabilities	49,603	115,312	22,826	8,105	4,616	379	300	114,111	**315,252**
Current Liabilities	129,656	88,102	79,820	21,544	17,910	256	2,223	2,596	**342,107**
Total Capitalization and Liabilities	$ 491,716	$ 1,246,609	$ 1,183,225	$ 101,693	$ 161,202	$ 1,772	$ 102,819	$ 32,841	**$ 3,321,877**

Segment Footnote - Combined Statement of Financial Position

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)
At September 30, 2010

	Citizens Gas	Water	Waste-Water	Steam	Chilled Water	Oil	Resources	Other	Total
Assets									
Property, Plant and Equipment	$ 285,003	$ -	$ -	$ 51,027	$ 52,293	$ 957	$ 8,488	$ 26,869	$ 424,637
Intangibles	-	-	-	25,603	81,206	-	-	-	106,809
Investments	18,842	-	-	5,440	5,185	-	77,432	2,579	109,478
Current Assets	159,000	-	-	13,609	9,052	1,216	36,562	8,563	228,002
Deferred Charges and Other Non-Current Assets	33,291	-	-	2,135	3,047	79	-	3,440	41,992
Total Assets	$ 496,136	$ -	$ -	$ 97,814	$ 150,783	$ 2,252	$ 122,482	$ 41,451	$ 910,918
Capitalization and Liabilities									
Retained Earnings and Accumulated OCI	$ (2,460)	$ -	$ -	$ 7,276	$ 59,903	$ 1,696	$ 125,094	$ (67,768)	$ 123,741
Long-Term Debt	321,642	-	-	68,975	75,905	-	-	-	466,522
Retirement Benefit and Other Long-Term Liabilities	59,150	-	-	7,967	4,918	306	615	80,724	153,680
Current Liabilities	117,804	-	-	13,596	10,057	250	(3,227)	28,495	166,975
Total Capitalization and Liabilities	$ 496,136	$ -	$ -	$ 97,814	$ 150,783	$ 2,252	$ 122,482	$ 41,451	$ 910,918

Capital Expenditures – Accrual Basis

	Capital Expenditures (In Thousands)	
	2011	2010
Citizens Gas	**$ 19,505**	$ 19,940
Water	**1,315**	–
Wastewater	**13,032**	–
Steam	**7,148**	3,355
Chilled Water	**10,260**	844
Oil	**72**	195
Resources (Westfield Gas)	**77**	68
Other	**1,894**	3,227
Total	**$ 53,303**	$ 27,629

Additional Thermal Financial Information

Additional Thermal financial information for the years ended September 30, 2011 and 2010 is summarized as follows:

	(In Thousands)	
	2011	2010
Net Income	**$ 3,587**	$ 3,465
Total Liabilities	**192,499**	181,418
Equity	**70,396**	67,179
Interest Charges on Long-Term Debt	**6,085**	7,418
Cash Flow Information:		
Cash and Cash Equivalents, Beginning of Fiscal Year	**$ 13,928**	$ 7,627
Cash Provided by Operating Activities	**31,575**	16,576
Cash Used in Investing Activities	**(17,779)**	(7,746)
Cash Used in Financing Activities	**(4,742)**	(2,529)
Cash and Cash Equivalents, End of Fiscal Year	**$ 22,982**	$ 13,928

11. MANUFACTURING DISCONTINUATION OF PRODUCTION AND RELATED ASSET RETIREMENT OBLIGATIONS

The Manufacturing segment, d.b.a. Indianapolis Coke, ceased operations on July 13, 2007. Final costs relating to the closure, including liquidation of inventories, plant demolition and environmental remediation are reflected in the accompanying financial statements in accordance with FASB guidance related to 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 (reported as Discontinued Operations in Other) for fiscal years ended September 30, 2011 and 2010 are as follows:

	(In Thousands)	
	2011	2010
Current Assets	**$ 583**	$ 4,476
Deferred Charges and Other Non-Current Assets	**1,933**	1,965
Total Assets	**$ 2,516**	$ 6,441
Retained earnings and Accumulated OCI	**$(49,827)**	$(42,560)
Retirement Benefit and Other Long-Term Liabilities	**51,110**	47,238
Current Liabilities	**1,233**	1,763
Total Capitalization and Liabilities	**$ 2,516**	$ 6,441

For fiscal years ended September 30, 2011 and 2010, Discontinued Operations operating expenses were $5.6 million and $4.6 million, respectively.

The activity for fiscal years 2010 and 2011 for the asset retirement obligation liability is as follows:

	(In Thousands)
Asset retirement obligation at 9/30/09	$30,171
Accretion expense	3,643
Remediation liabilities settled	(607)
Asset retirement obligation at 9/30/10	33,207
Accretion expense	4,081
Demolition liabilities settled	(59)
Remediation liabilities settled	(1,274)
Asset retirement obligation at 9/30/11	$35,955

12. DERIVATIVES AND HEDGING

CEG’s Price Volatility Mitigation Policy sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. CEG’s objectives for using derivatives are to decrease the volatility associated with fluctuating natural gas prices. CEG enters into natural gas options purchased and sold on the New York Mercantile Exchange. These instruments, in conjunction with physical gas supply contracts, are designated to cover estimated gas customer requirements. Such energy contracts, to the extent they are not considered "normal" as defined by FASB guidance, are recognized at fair value as derivative assets or liabilities on the Combined Statements of Financial Position. Gains/losses and fees associated with these derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. Accordingly, the offset to the change in fair value of these derivatives is recorded as a regulatory asset or liability.

The following tables present information (in thousands) about CEGs’ derivative instruments and hedge activities. The first table provides a financial position overview of CEG’s Derivative Assets and Liabilities as of September 30, 2011 and 2010, respectively, while the latter table provides a breakdown of the related impact on the results of operations for the fiscal years ended September 30, 2011 and 2010, respectively. CEG recovers all derivative costs through its regulatory mechanism for gas cost adjustments; hence there is minimal financial risk to CEG associated with these derivative instruments.

2011 Fair Value of Derivative Instruments

Derivative instrument	Derivative Designation	Statement of Financial Position Location	Derivative Assets Fair Value	Derivative Liabilities Fair Value
Commodity contracts	Not accounted for as a hedge (1)(2)	Other Investments	$1,114	($738)

2010 Fair Value of Derivative Instruments

Derivative instrument	Derivative Designation	Statement of Financial Position Location	Derivative Assets Fair Value	Derivative Liabilities Fair Value
Commodity contracts	Not accounted for as a hedge (1)(2)	Other Investments	$1,547	($1,079)

(1) Commodity contracts represent exchange-traded options. These contracts qualify for net presentation on the Combined Statements of Financial Position.

(2) The fair value shown for the commodity contracts is comprised of derivative volumes totaling 4.7 million and 4.4 million dekatherms at September 30, 2011 and 2010, respectively. These volumes are disclosed in absolute terms, not net.

Unrealized gains and losses and settled amounts are initially recognized on the Combined Statements of Financial Position as a deferred recoverable cost, a regulatory asset or liability, and ultimately recognized on the Combined Statements of Operations as Cost of Goods Sold when those costs are recovered through gas rate adjustments. The amount of realized gain included in recoverable gas costs was $0.9 million and $1.6 million at September 30, 2011 and 2010, respectively. The margin asset was less than $0.1 million at September 30, 2011 and the margin liability was $0.1 million at September 30, 2010.

Derivative Impact on Statement of Operations

Derivative instrument	Derivative Designation	Statement of Operations Location	September 30, 2011
Commodity contracts	Not accounted for as a hedge	Gain in Utility Cost of Goods Sold	$2,385

Derivative Impact on Statement of Operations

Derivative instrument	Derivative Designation	Statement of Operations Location	September 30, 2010
Commodity contracts	Not accounted for as a hedge	Gain in Utility Cost of Goods Sold	$7,622

The derivative impact in utility cost of goods sold is recovered through regulatory gas rate adjustments in subsequent months, which is reflected in Utility Operating Revenue. The derivative impact on cash flow for the fiscal years ended September 30, 2011 and 2010 was an increase of $0.9 million and $3.2 million, respectively.

13. COMMITMENTS AND CONTINGENCIES

a. Environmental Commitments and Contingencies

The Trusts are subject to various environmental laws and regulations and believe they are in material compliance with existing federal, state and local statutes, ordinances, rules and regulations governing environmental matters. The Trusts have no way of estimating the enactment or promulgation of future environmental laws and regulations.

Langsdale Environmental Remediation

A merchant coke plant operated at CEG's Langsdale property until 1952. The plant was incorporated into the Trust in 1935 with the consolidation of assets to become the Public Charitable Trust. Available records indicate the plant was out of service from 1931 until 1943, at which time the U.S. Department of Defense ordered that the plant be recommissioned to support domestic production associated with World War II. As a result of these operations, CEG has reason to believe there may be environmental impacts that will require remediation. However, because the full nature and extent of the environmental impacts has not yet been determined, CEG cannot estimate the costs associated with environmental remediation of this site.

Water System

The Water System, acquired on August 26, 2011, is currently in compliance with the requirements of the Clean Water Act, the Safe Drinking Water Act, the Disinfectants and Disinfection Byproducts Rule, the Enhanced Surface Water Treatment Rule, the Radon Rule and other applicable laws, except to the extent that such non-compliance would not have a material adverse effect on the Water System. The Environmental Protection Agency (EPA) Long Term Enhanced Surface Water Treatment Rule (Rule) will require the Water System to change certain of its water treatment processes to comply with the Rule. Under those Rules such capital improvements are required to be completed by April 2012, subject to certain extensions. Among the required improvements are ultra violet upgrades to treatment plants. CEG estimates the cost of these upgrades to be $7.0 million.

Wastewater System

The Wastewater System, also acquired on August 26, 2011, is subject to wastewater collection and treatment requirements under both federal and state law. Those requirements are contained in a National Pollutant Discharge Elimination System (NPDES) permit. Both EPA and Indiana Department of Environmental Management (IDEM) have jurisdiction over the Wastewater System. As authorized by the Clean Water Act, the NPDES permit program controls water pollution by regulating point sources that discharge pollutants into water of the United States.

Combined Sewer Overflows and Long-Term Control Plan: As was the common engineering practice during the early 1900's, the older portion of the Wastewater System was designed to carry both stormwater and sanitary waste. In times of wet weather, the capacity of the combined portion of the System can be overloaded. Combined sewer overflow (CSO) outfalls that discharge to various Indianapolis waterways were constructed as relief points to prevent combined stormwater and sewage from backing up into homes, businesses and streets. The EPA requires communities to implement specific minimum controls and to develop and implement long-term control plans (LTCPs) to reduce CSOs by separating sewers and maximizing the capacity to treat stormwater and wastewater. The City, EPA, and the U. S. District Court entered into a Consent Decree in 2006 that established a long-term control plan to address the system's overloaded combined sewer overflows. The plan established a twenty (20) year schedule for the required Wastewater System improvements. Upon acquisition of the Wastewater System, CWA assumed the obligations under the Consent Decree, CWA has agreed to:

A. Achieve full operational status to implement thirty-two (32) combined sewer overflows (CSO) control measures along five (5) waterways designed to significantly reduce raw sewage overflows from the combined sewer system and achieve full operational status by December 31, 2025; and

B. By December 31, 2015, eliminate chronic overflows of sanitary sewer discharges (SSDs) from seven (7) locations in the separated sanitary Wastewater System.

When expressed in nominal dollars, CWA estimates that the projected cost of the Consent Decree, including capital and operation and maintenance costs, is approximately $1.7 billion.

Septic Tank Elimination Projects: As part of the Wastewater System acquisition, CWA agreed to finance, construct, implement and complete certain Septic Tank Elimination Projects (STEP) to provide for the extension of sanitary sewers into certain unsewered areas in Indianapolis with a planned capital cost of $95.8 million.

b. Legal Contingencies and Contractual Commitments

b.1 Legal Contingencies

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

b.2 Water System Contractual Commitments

Asset Purchase Agreement

Pursuant to the Waterworks Asset Purchase Agreement, CEG as trustee of the public charitable trust for the Water System assumed the liabilities of the City and the City's Department of Waterworks related to the Waterworks System and the Acquired Assets under the Waterworks System Asset Purchase Agreement, other than Excluded Liabilities as defined therein, including litigation against either Seller related to the Waterworks System or the Acquired Assets, performance obligations under all Assigned Contracts as defined, the Retiree Medical Benefits as defined in the agreement and described below and the Assumed Debt Obligations.

In addition, CEG agreed that the rates described in the IURC order of February 2, 2011 related to the Departments of Waterworks petition requesting a rate increase would remain in effect for at least two years after the closing of the transaction, subject to certain specified exceptions.

Further Assurances Agreement

In connection with the Water System acquisition transaction in August 2011, CEG entered into an Agreement Regarding Certain Further Assurances with the City and the City's Department of Waterworks (the Department) whereby Citizens agreed that it would assume the Department's liability under the City of Indianapolis, Indiana Waterworks District Subordinate Taxable Notes, Series 2010 (the SRF Loan), which SRF Loan has a maximum principal amount of $1.2 million, bears 0 percent interest and is subject to forgiveness on March 30, 2014 in accordance with the Financial Assistance Agreement executed in connection therewith. Actual amount of principal borrowed and forgiven on December 9, 2011 was $0.3 million.

Transition Services Agreement

In connection with the Water System acquisition transaction in August 2011, CEG entered into a Transition Services Agreement with the City and the City's Department of Waterworks whereby CEG agreed to a mechanism for the proration of pre- and post-closing current assets and current liabilities of the Wastewater System as well as the specific treatment of outstanding system accounts receivable, trade payables and purchase orders, all as required by the Asset Purchase Agreement pursuant to which Citizens acquired the Water System. To date, in accordance with the Asset Purchase Agreement and the Transition Services Agreement, CEG has paid the City an amount equal to $22.3 million as settlement for outstanding accounts receivable as of the closing date and has agreed to be responsible for $5.3 million constituting trade payables relating to the Water System.

Grant of Option to Purchase Real Estate (Option Agreement)

In connection with the Water System acquisition transaction in August 2011, CEG entered into a Grant of Option to Purchase Real Estate with the City and the City's Department of Waterworks whereby CEG granted an exclusive and irrevocable option to purchase certain real estate located in Marion County, Indiana until the earlier of (i) the tenth anniversary of August 26, 2011, or (ii) if the City has not exercised its option within sixty (60) days after receiving the Option Termination Notice (as defined in the Option Agreement). The City may exercise the option and purchase the real estate for $6.5 million pursuant to the terms and conditions of the Option Agreement.

Employee Benefit Plan Transfer and Assumption Agreement

In connection with the Water System acquisition transaction in August 2011, CEG entered into an Employee Benefit Plan Transfer and Assumption Agreement with WASCO, LLC, as the sponsor of the Pension Plan for Collectively Bargained Indianapolis Water Employees (the Pension Plan), the IWC Resources Executive Supplemental Plan (SERP) and the Veolia Water Health and Welfare Benefits Plan (the Welfare Plan) whereby CEG agreed to assume all rights, responsibilities, obligations and liabilities attendant to the Pension Plan and SERP. CEG also assumed responsibility for the claims, liabilities, or obligations for retiree health benefits, life insurance and Medicare Part B premium reimbursement for those affected employees who, on or prior to the closing of the Water System transaction, became eligible for such Retiree Welfare Benefits (as defined in the agreement).

Settlement Implementation and Closing Agreement

In connection with the Water System acquisition transaction in August 2011, CEG entered into a Settlement Implementation and Closing Agreement with Veolia Water Indianapolis, LLC (VWI) whereby CEG and VWI agree to implement certain provisions of the Settlement Agreement to Transition Management & Operations of the City of Indianapolis Water System from VWI, dated October 20, 2010, and provide for the transfer, assignment and assumption of certain contracts, assets, plans and liabilities of VWI with respect to the Waterworks System, including certain outstanding commitments for vehicles, services, materials and supplies, and equipment and inventory. Net liabilities assumed under these provisions are approximately $6.8 million. CEG agreed to make a closing inventory payment to VWI with respect to any inventory acquired by Citizens in excess of $1.3 million. CEG further assumed all right, title and interest in, to and under each of the Capital Projects and Assigned

Contracts (as defined in the agreement), along with the assumption of certain performance obligations thereunder arising after the Closing as provided in that agreement.

b.3 Wastewater System Contractual Commitments

Asset Purchase Agreement

Pursuant to the Wastewater System Asset Purchase Agreement, CWA as trustee of the public charitable trust for the Wastewater System assumed the liabilities of the City and the Sanitary District related to the Wastewater System and the Acquired Assets under the Wastewater System Asset Purchase Agreement, other than Excluded Liabilities as defined therein, including litigation against either Seller related to the Wastewater System or the Acquired Assets, performance obligations under all Assigned Contracts as defined, the Consent Decree as defined and described below, and STEP and PILOT Payments each as defined and provided in the agreement.

In addition, CWA agreed that the rates described in the IURC Order would remain in effect for at least two years after the closing of the transaction, subject to certain specified exceptions.

A Cash Escrow Agreement was established under the agreement to apply to indemnity obligations under both the Wastewater System Asset Purchase Agreement and the Waterworks System Asset Purchase Agreement of the City, the Sanitary District and the Department of Waterworks, containing an initial amount of $40.0 million to be set aside for a period of two years following the closing. Pursuant to the agreement certain payments obligations were made and are to be made out of that escrow, including a $29.0 million settlement with VWI, among others as provided in those agreements. Upon termination of the Cash Escrow Agreement, the Trusts are entitled to a distribution of the lesser of $15.0 million or 37.5 percent of the remaining balance.

Further Assurances Agreement

In connection with the Wastewater System acquisition transaction in August 2011, CWA entered into an Agreement Regarding Certain Further Assurances with the City and the City's Department of Public Works whereby CWA agreed that it would pay $4.6 million to the City on December 1, 2011 to satisfy its obligations to make payments in lieu of property taxes relating to the Wastewater System for periods after the closing of such transactions assumed per the Asset Purchase Agreement for the Wastewater System acquisition transaction. CWA also agreed to make payments to the City at least five (5) business days prior to the maturity dates (except for the first payment, which CWA agreed to pay on December 1, 2011) in order to satisfy the annual debt service payments on the outstanding principal amount of the General Obligation: Sanitary District Bonds of 1993, Series A; Sanitary District Refunding Bonds of 2003, Series A; Sanitary District Refunding Bonds of 2007, Series C; Sanitary District Refunding Bonds of 2007, Series D; and Sanitary District Refunding Bonds, Series 2009 A. See Note 6 for additional information on General Obligation debt service payments.

This agreement further clarified that CWA had paid and would pay on behalf of both itself and the City certain transaction expenses relating to both the acquisition of the Water System and the Wastewater System totaling $0.5 million and received reimbursement from the City in the amount of $0.3 million for the City's portion of such expenses.

Transition Services Agreement

In connection with the Wastewater System acquisition transaction in August 2011, CWA entered into a Transition Services Agreement with the City and the City's Department of Public Works whereby CWA agreed to a mechanism for the proration of pre- and post-closing current assets and current liabilities of the Wastewater System as well as the specific treatment of outstanding system accounts receivable, trade payables and purchase orders, all as required by the Asset Purchase Agreement pursuant to which CWA acquired the Wastewater System. To date, in accordance with the Asset Purchase Agreement and the Transition Services Agreement, CWA has paid the City an amount equal to $19.7 million as settlement for outstanding accounts receivable as of the closing date and has agreed to be responsible for $19.8 million constituting trade payables relating to the Wastewater System.

United Water Management Contract

In connection with the Wastewater System acquisition transaction in August 2011, CWA entered into an Assignment and Assumption Agreement with the City whereby CWA assumed all of the rights and obligations of the City under the Management Agreement between the City and United Water Services Indiana LLC, as assignee from White River Environmental Partnership, an Indiana general partnership, d/b/a United Water Services Indiana (United Water), dated as of October 11, 2007 (Management Agreement), pursuant to which United Water manages the Wastewater System and the stormwater system for the City of Indianapolis. Under the Management Agreement, United Water receives an annual fee. The combined actual fee paid in 2010 was approximately $35.7 million. The fee may be adjusted for flow and loadings or for regulatory changes. United

Water is paid for services performed under the Management Agreement, including for planning assistance, capital improvements and other services. The Management Agreement provides that capital improvements to the Wastewater System over $2.0 million annually are the responsibility of the CWA. The Management Agreement provides that United Water would receive a termination payment between $2.3 million and $5.6 million if it is terminated early by CWA, depending on the date of termination. Such termination payment would be made by the City pursuant to the terms of the Asset Purchase Agreement for the Wastewater System to the extent there are still sufficient funds in the escrow account established pursuant to that agreement. Otherwise, CWA would bear this obligation. Management and incentive fee expenses with United Water are expected to be $38.9 million during 2012 which includes $4.6 million for stormwater management which are to be reimbursed by the City.

Stormwater Management Agreement

In connection with the Wastewater System acquisition transaction in August 2011, the City retained ownership of its stormwater system; however, the stormwater system is managed and operated under the Management Agreement between the City and United Water, which agreement CWA assumed at the closing of that transaction. CWA and the City entered into a Stormwater Management Agreement and Plan of Cooperation whereby CWA will manage and operate the stormwater system through United Water. The City will compensate CWA approximately $5.4 million annually, including up to $0.5 million in capital improvements, of which approximately $4.6 million is the amount CWA is obligated to compensate United for services rendered for the stormwater system under the Management Agreement. The remainder is for miscellaneous stormwater system-related services CWA will provide the City.

Assumption of Consent Decree

In connection with the Wastewater System acquisition transaction in August 2011, CWA assumed the City's obligations under the order of the United States District Court for the Southern District of Indiana (the Court) dated December 19, 2006, among the United States Environmental Protection Agency (the EPA), IDEM, and the City, as amended (the Consent Decree). CWA has a Capital Improvement Plan (the Capital Improvement Plan) to meet guidelines of the Consent Decree and the overall needs of the Wastewater System. The improvements related to the Consent Decree and the LTCP have been planned and scheduled out through 2025. The IURC approved the Consent Decree and the LTCP, including the projected cost of implementing the LTCP, as an Environmental Compliance Plan (ECP), pursuant to Indiana Code Sections 8-1-28-1 et seq. Indiana Code Section 8-1-28-11 provides that once an ECP has been approved by the IURC, it must allow the utility to recover the cost of developing and implementing the ECP, up to the amount approved, absent fraud, concealment, gross mismanagement or inadequate quality control. The IURC is expected to approve a tracking mechanism (the ECP Mechanism) proposed by CWA that will facilitate more timely recovery of debt service costs incurred to finance the LTCP capital projects. CWA expects that debt services associated with $350.6 million or 57 percent of the Capital Improvement Plan, in Fiscal Years 2014 through 2016 would be eligible for recovery under the ECP Mechanism. The ECP Mechanism will begin to be applied toward Consent Decree related debt service costs in calendar year 2014. When expressed in nominal dollars, CWA estimates that the projected cost of the Consent Decree, as amended, including capital and operation and maintenance costs, is approximately $1.7 billion. CWA also assumed certain agreements for the performance of such capital project in connection with these transactions.

Memorandum of Understanding Regarding Certain Services Pertaining to the Stormwater System

On August 26, 2011, CWA and the City entered into a Memorandum of Understanding under which CWA committed to provide certain selected services relating to, among other things, the stormwater system retained by the City, which services include taking assignment of certain obligations under the Service Agreement between the City of Indianapolis Department of Public Works and Advance Sweeping Services, Inc. and the Professional Services Agreement between the City of Indianapolis Department of Public Works and Sanitary Management & Engineering Company, Inc. for Underground Utility Locate Services. In exchange for these services, CWA anticipates annual payments of approximately $0.2 million.

c. Lease Contractual Commitments

The Trusts have entered into operating leases for storage of natural gas at various sites and for miscellaneous equipment. Lease expenses were $10.1 million and $9.9 million for the years ended September 30, 2011 and 2010, respectively. Future minimum lease payments under noncancelable operating leases as of September 30, 2011 are as follows:

	(In Thousands)
2012	$10,122
2013	9,923
2014	9,923
2015	9,922
2016	5,157
Thereafter	–
Total minimum lease payments	$ 45,047

Deloitte.

Deloitte & Touche LLP
111 Monument Circle
Suite 2000
Indianapolis, IN 46204-5120
USA

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors for Utilities of the
Department of Public Utilities of the City of
Indianapolis, doing business as
Citizens Energy Group, and Subsidiary and CWA Authority, Inc.

We have audited the accompanying combined statements of financial position of Citizens Energy Group and Subsidiary and CWA Authority, Inc. (collectively the "Trusts"), both of which are under common management, as of September 30, 2011 and 2010, and the related combined statements of operations and equity and of cash flows for the years then ended. These financial statements are the responsibility of the Trusts' 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 Trusts' 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 financial statements present fairly, in all material respects, the combined financial position of Citizens Energy Group and Subsidiary and CWA Authority, Inc. as of September 30, 2011 and 2010, and the combined results of their operations and their combined cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Indianapolis, Indiana
January 20, 2012