Renew

125 Years of Excellence

Citizens Energy Group

Management Discussion

& Financial Report

2012

Cover Illustration:
A tree made of pipe and valve wheels illustrates that the Citizens Public Charitable Trust has thrived for 125 years because it has been in a continuous state of renewal. This report highlights how Citizens is renewing our commitments to environmental sustainability, safety and quality service.
— Bryan Wertz, Graphic Designer

Management Discussion & 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 Note 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. Other includes 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. 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 Trusts reported combined net loss of $11.8 million in 2012 as compared to net income of $31.6 million in 2011. The $43.4 million decrease in net income is summarized as follows:

	(In Millions)		
	2012	2011	Change
Operating Revenues:			
Utility	$ 650.6	$ 418.8	$ 231.8
Non-Utility	45.8	44.8	1.0
Total Operating Revenues	696.4	463.6	232.8
Operating Expenses:			
Cost of Goods Sold:			
Utility	156.8	213.3	(56.5)
Non-Utility	13.1	12.5	0.6
Total Cost of Goods Sold	169.9	225.8	(55.9)
Other Operating Expenses	411.1	150.6	260.5
Total Operating Expenses	581.0	376.4	204.6
Total Operating Income	115.4	87.2	28.2
Other Income (Expense), Net	(0.6)	4.6	(5.2)
Equity in Earnings of Affiliates	(4.9)	(19.3)	14.4
Interest Charges	115.3	35.3	80.0
Income (Loss) from Continuing Operations	(5.4)	37.2	(42.6)
Loss from Discontinued Operations	(6.4)	(5.6)	(0.8)
Net Income (Loss)	$ (11.8)	$ 31.6	$ (43.4)

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 $231.8 million to $650.6 million in 2012, from $418.8 million in 2011 due to the following:

Citizens Gas – decrease of $54.3 million. Total operating revenue for Citizens Gas decreased to $255.1 million in 2012 versus $309.4 million in 2011, on volume of gas sold and transported of 39.6 million dekatherms in 2012 versus 47.8 million dekatherms in 2011. Revenue decreased by $54.7 million due to lower gas cost recovery revenue in 2012. Base rate revenue decreased $7.4 million, the net of a $9.3 million rate increase effective September 2011 and a revenue decrease of $16.7 million due to lower volumes of gas sold related to the warmer 2012 winter. The base rate decrease was offset by increased revenue of $8.4 million from rate mechanisms for Decoupling and Normal Temperature Adjustment. Miscellaneous revenue decreased by $0.6 million compared to 2011. Coupled with the period-to-period changes in actual gas costs, the net margin on gas sales decreased $0.6 million (see Utility Cost of Goods Sold section below).

Water – increase of $150.3 million. Total operating revenue for the Water business segment increased to $170.8 million in 2012 versus $20.5 million in 2011, on volume sales of 40.8 billion gallons. The Water business segment was acquired on August 26, 2011 and consequently included only thirty-six days of operations in 2011.

Wastewater – increase of $141.1 million. Total operating revenue for the Wastewater business segment increased to $156.5 million in 2012 versus $15.4 million in 2011, on treated volume of 31.7 billion gallons. The Wastewater business segment was acquired on August 26, 2011 and consequently included only thirty-six days of operations in 2011.

Steam – decrease of $4.5 million. Total operating revenue for the Steam business segment decreased to $64.3 million in 2012 versus $68.8 million in 2011, on volume sales of 61.4 million therms in 2012 versus 65.7 million therms in 2011. Revenue decreased by $3.1 million due to the decreased volume of steam sold and $1.4 million due to lower fuel cost recovery revenue, compared to 2011. Coupled with the period-to-period changes in actual fuel costs, the net margin on steam sales decreased by $2.5 million (see Utility Cost of Goods Sold section below).

Resources; Westfield Gas – decrease of $0.8 million. Total operating revenue for Westfield Gas decreased to $3.9 million in 2012 versus $4.7 million in 2011, on volume sales of 356.7 thousand dekatherms in 2012 versus 467.3 thousand dekatherms in 2011. Revenue decreased by $0.8 million due to lower gas cost recovery revenue and $0.3 million due to lower usage driven by a warmer winter compared to 2011. This was partially offset by higher revenues of $0.3 million from the Normal Temperature Adjustment and Decoupling rate mechanisms in 2012 compared to 2011. Combined with the period-to-period changes in actual gas costs, the net margin on gas sales remained unchanged (see Utility Cost of Goods Sold section below).

Non-Utility Operating Revenues

Non-utility operating revenues increased $1.0 million to $45.8 million in 2012, from $44.8 million in 2011 due to the following:

Chilled Water – increase of $1.1 million. Total operating revenue for the Chilled Water business segment increased to $39.6 million in 2012 versus $38.5 million in 2011, on volume sales of 170.1 million ton hours in 2012 versus 166.0 million ton hours in 2011. Revenue increased by $0.7 million due to an annual price increase and $0.6 million due to new customer growth. This was partially offset by a decrease of $0.2 million due to the termination of the Lilly Facility Management contract.

Oil – no change. Total operating revenue for the Oil business segment was $6.2 million in 2012 and $6.2 million in 2011, on volume sales of 82 thousand barrels of oil in 2012 versus 84 thousand barrels of oil in 2011. Revenue averaged $75 per barrel in 2012 versus $74 per barrel in 2011.

Resources; Covance Laboratory Group (CLG) – decrease of $0.1 million. Total operating revenue for CLG decreased to zero in 2012 versus $0.1 million in 2011. The management services contract was terminated by CLG on October 1, 2010.

Utility Cost of Goods Sold

Utility cost of goods sold decreased $56.5 million to $156.8 million in 2012, from $213.3 million in 2011 due to the following (the Water and Wastewater business segments have no cost of goods sold):

Citizens Gas – decrease of $53.7 million. Total gas costs for Citizens Gas decreased to $119.3 million in 2012 versus $173.0 million in 2011. The weighted average cost of gas decreased 20.2 percent, from $5.14 per dekatherm in 2011 to $4.10 in 2012. Purchased gas delivered directly to customers and company use gas decreased $62.6 million. In addition, there was a $3.6 million decrease for 2012 compared to 2011 in gas cost recovery reconciliation adjustments between actual and expected costs. Storage transactions resulted in a $12.5 million net increase, primarily the result of higher withdrawals at lower average cost during the November 2011 through March 2012 winter heating season, slightly offset by higher injections at lower average cost during the subsequent April through September 2012 storage refill season. Pricing for natural gas is driven by market factors.

Steam – decrease of $2.0 million. Total cost of goods sold for the Steam business segment decreased to $35.9 million in 2012 versus $37.9 million in 2011. This decrease was primarily the result of lower fuel, utility and chemicals costs of $4.3 million due to lower demand. Partially offsetting this decrease was a $2.2 million increase in Fuel Cost Adjustments between actual and expected costs for 2012 compared to 2011.

Resources; Westfield Gas – decrease of $0.8 million. Total cost of goods sold for Westfield Gas decreased to $1.6 million in 2012 versus $2.4 million in 2011. The decrease was due to lower sales volumes and lower average commodity prices compared to 2011.

Non-Utility Cost of Goods Sold

Non-utility cost of goods sold increased $0.6 million to $13.1 million in 2012, from $12.5 million in 2011 due to the following (the Oil business segment has no costs of goods sold):

Chilled Water – increase of $0.6 million. Total cost of goods sold for the Chilled Water business segment increased to $13.1 million in 2012 versus $12.5 million in 2011. This increase was primarily due to higher electrical costs. Electric rates increased an average of 6% compared to 2011.

Other Operating Expenses

Other operating expenses increased $260.5 million to $411.1 million in 2012, from $150.6 million in 2011 due to the following:

Operations and Maintenance – increase of $108.0 million. Operations and Maintenance by business segment for 2012 versus 2011 is as follows (in thousands):

	2012	2011	Change
Citizens Gas	$ 73,333	$ 89,220	$ (15,887)
Water	76,554	7,677	68,877
Wastewater	60,969	7,288	53,681
Steam	23,532	23,456	76
Chilled Water	8,420	8,098	322
Oil	1,757	1,718	39
Resources	4,680	3,745	935
Other	341	350	(9)
Total Operations & Maintenance	$ 249,586	$ 141,552	$ 108,034

The Citizens Gas decrease is primarily due to lower corporate support costs of $13.3 million, lower fuel gas and storage maintenance costs of $1.7 million, and lower miscellaneous costs of $0.9 million. The Water and Wastewater increases are due to a full year of costs incurred during 2012 versus a partial year for 2011 since the acquisition of water and wastewater utility assets on August 26, 2011. The Resources increase is due to higher costs at Resources – Parent of $0.3 million, Citizens Resource Production (CRP) of $0.3 million, and Westfield Gas costs of $0.3 million.

Depreciation and Amortization – increase of $76.5 million. Depreciation and Amortization by business segment for 2012 versus 2011 is as follows (in thousands):

	2012	2011	Change
Citizens Gas	$ 21,286	$ 23,678	$ (2,392)
Water	36,444	3,359	33,085
Wastewater	52,019	4,963	47,056
Steam	4,201	5,515	(1,314)
Chilled Water	5,884	5,693	191
Oil	333	360	(27)
Resources	443	568	(125)
Total Depreciation & Amortization	$ 120,610	$ 44,136	$ 76,474

The Citizens Gas decrease is primarily due to the retirement of certain technology and software assets. The Water and Wastewater increases are due to a full year of costs incurred during 2012 versus a partial year for 2011 since the acquisition of water and wastewater utility assets on August 26, 2011. Amortization for water and wastewater includes amortization of acquisition adjustment of $7.8 million and ($0.1) million, respectively. The Steam decrease is primarily due to an impairment charge in 2011 for a customer contract.

Taxes – increase of $26.3 million. Taxes by business segment for 2012 versus 2011 are as follows (in thousands):

	2012	2011	Change
Citizens Gas	$ 8,729	$ 7,959	$ 770
Water	12,706	1,472	11,234
Wastewater	14,699	1,423	13,276
Steam	1,298	1,140	158
Chilled Water	1,874	1,719	155
Oil	105	102	3
Resources	1,289	664	625
Other	237	110	127
Total Taxes	$ 40,937	$ 14,589	$ 26,348

The Citizens Gas increase is primarily due to higher property taxes of $1.5 million, offset by lower utility receipts tax of $0.7 million. The Water and Wastewater increases are due to a full year of costs incurred during 2012 versus a partial year for 2011 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

Gain from Curtailment of Acquired Benefit Plans – decrease of $49.6 million. There were no curtailments in the current year, in comparison to 2011, in which curtailment gains of $46.2 million and $3.4 million were recorded for 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 – decrease of $5.2 million. Interest income increased $2.6 million in 2012 to $2.9 million from $0.3 million in 2011. The increase in interest income was mostly experienced by the Water utility. Water had $2.6 million in interest income, generated by a combination of returns on its debt service reserve fund investments and interest income from notes receivable. The remainder of the Trust had interest income of approximately $0.3 million due to interest earned from cash on hand and reserve fund investments. Other, net expense increased $7.9 million to $3.6 million expense in 2012 from $4.3 million income in 2011. 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. In addition, community investment and brand advertising expenses increased $1.6 million compared to 2011.

Equity in Earnings of Affiliates

Equity in Earnings of Affiliates – increase of $14.4 million. Equity in Earnings of Affiliates increased $14.4 million to a $4.9 million loss in 2012 from $19.3 million loss in 2011. The $14.4 million increase is due almost entirely to ProLiance gross margin, which was $14.5 million better than the prior year. The ProLiance improvement represents a significant reduction of pipeline and storage demand costs resulting from ongoing contract renegotiations and expirations. Additionally, natural gas storage optimization profitability improved, reflecting improved market conditions and the impacts of market optimization activities.

Interest Charges

Interest Charges – increase of $80.0 million. Interest Expense by business segment for 2012 versus 2011 are as follows (in thousands):

	2012	2011	Change
Citizens Gas	$ 17,213	$ 18,275	$ (1,062)
Water	50,488	5,020	45,468
Wastewater	41,949	4,462	37,487
Steam	3,034	2,866	168
Chilled Water	2,740	4,730	(1,990)
Oil	-	-	-
Resources	-	-	-
Other	(131)	(24)	(107)
Total Interest Expense	$ 115,293	$ 35,329	$ 79,964

Interest charges increased $80.0 million to $115.3 million in 2012 from $35.3 million in 2011. The increase in interest charges is largely attributable to incurring a full year of debt service on Water and Wastewater debt since the acquisition of water and wastewater assets on August 26, 2011. Gas Division interest expense decreased nearly $1.1 million due to lower interest rates on $50 million of outstanding commercial paper and also principal reductions on existing long term debt. Chilled Water interest charges were nearly $2.0 million higher in 2011 versus 2012 due to the extinguishment of unamortized costs related to the Series 2001A bonds. Steam division interest charges increased nearly $0.2 million due to an additional $8 million of borrowing on Thermal's working capital line of credit.

Discontinued Operations

Loss from Discontinued Operations (Manufacturing Division) – increase of $0.8 million. Loss from Discontinued Operations increased $0.8 million to $6.4 million in 2012 from $5.6 million in 2011. The $0.8 million increase is primarily due to higher retiree benefit costs of $0.7 million and administrative costs of $0.1 million compared to 2011.

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 2012, capital expenditures, on an accrual basis, increased to $295.4 million from $53.4 million in 2011. This increase of $242.0 million is summarized as follows (in thousands):

	2012	2011	Change
Citizens Gas	$ 22,026	$ 19,505	$ 2,521
Water	38,128	972	37,156
Wastewater	199,071	13,470	185,601
Steam	7,893	7,148	745
Chilled Water	10,046	10,260	(214)
Oil	-	60	(60)
Resources	181	77	104
Other	18,060	1,894	16,166
Total Capital Expenditures	$ 295,405	$ 53,386	$ 242,019

The Trusts' projected capital spending requirement of $356.3 million for 2013 is summarized as follows (in thousands):

	2013
Citizens Gas	$ 37,574
Water	62,885
Wastewater	225,319
Steam	9,324
Chilled Water	6,508
Oil	485
Resources	2,305
AFUDC	11,925
Total Capital Expenditures	$ 356,325

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 $56.9 million at September 30, 2012. Citizens Gas expects to meet its capital spending requirements in 2013 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, various distribution system and treatment plants upgrades. Water had cash and cash equivalents of $62.6 million at September 30, 2012, including $39.5 million in the construction fund. Water expects to meet its capital spending requirements in 2013 through a combination of internally generated funds, available cash and new issuances of long-term debt. CEG anticipates filing a rate case for Water in early 2013. The amount and details of the rate increase request will not be known until the case is filed. CEG does not expect any rate increase determined in the 2013 rate case to be implemented prior to late calendar year 2013.

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 $195.3 million at September 30, 2012, including $142.1 million in the construction fund. Wastewater expects to meet its capital spending requirements in 2013 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. The rates Wastewater charges for service will increase 10.75 percent on January 1, 2013 (see Note 2 of the combined financial statements). CWA anticipates filing a rate case for Wastewater in early 2013. The amount and details of the rate increase request will not be known until the case is filed. Any rate increase determined in the 2013 rate case cannot be implemented prior to January 1, 2014 under the terms of the Asset Purchase Agreement with the City.

Citizens Thermal's Steam business segment plans to convert four coal burning boilers to natural gas and Chilled Water business segment plans to invest in a new 3,000 ton chiller. At September 30, 2012, cash and cash equivalents of Steam and Chilled Water amounted to $1.7 million and $14.3 million, respectively. Citizens Thermal expects to meet its capital spending requirements in 2013 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. CEG anticipates filing a rate case for Steam in 2013. The amount and details of the rate increase request will not be known until the case is filed.

Derivatives and Hedging

CEG has entered into certain derivative and hedging transactions in 2012 and 2011, 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, 2012	2011
Operating Revenues:	Utility operating revenues	$ 650,606	$ 418,794
	Non-utility operating revenues	45,813	44,811
	Total operating revenues	696,419	463,605
Operating Expenses:	Cost of Goods Sold:		
	Utility cost of goods sold	156,749	213,283
	Non-utility cost of goods sold	13,124	12,507
	Total cost of goods sold	169,873	225,790
	Operations and maintenance	249,586	141,552
	Curtailment of acquired benefit plans	-	(49,629)
	Depreciation and amortization	120,610	44,136
	Taxes	40,937	14,589
	Total operating expenses	581,006	376,438
Total Operating Income		115,413	87,167
Other Income (Expense)-Net:	Interest income	2,919	309
	Other	(3,582)	4,335
	Total other income (expense)	(663)	4,644
Income Before Equity in Earnings of Affiliates and Interest Charges		114,750	91,811
Equity in Earnings of Affiliates		(4,898)	(19,282)
Interest Charges:	Interest on long-term debt	123,889	31,933
	Other interest including net premium (discount) amortization	(8,596)	3,396
	Total interest charges	115,293	35,329
Income (loss) from Continuing Operations		(5,441)	37,200
Loss from Discontinued Operations		(6,369)	(5,553)
Net Income (Loss)		$ (11,810)	$ 31,647

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, 2012	2011
Property, Plant and Equipment:	Utility plant, at original cost	$ 4,683,036	$ 4,633,498
	Accumulated depreciation	2,639,364	2,554,486
		2,043,672	2,079,012
	Non-utility plant, at original cost	74,457	73,498
	Accumulated depreciation	22,870	20,636
		51,587	52,862
	Construction work in progress	411,067	194,399
	Property held for future use	1,442	1,442
		2,507,768	2,327,715
Intangibles:	Thermal customer contracts, net	96,799	101,022
Investments:	Bond restricted funds	192,294	153,175
	Investment in affiliates	51,338	57,139
	Other	39,774	37,995
		283,406	248,309
Current Assets:	Cash and cash equivalents	393,989	391,095
	Short-term investments	500	6,000
	Accounts receivable, less allowance for doubtful accounts of $2,049 and $9,483, respectively	55,876	60,766
	Accrued utility revenue	26,071	22,382
	Natural gas in storage	56,766	73,383
	Materials and supplies	13,751	14,152
	Recoverable gas and fuel costs	11,107	1,486
	Prepayments and deposits	5,111	6,073
	Current assets held for sale and discontinued operations	932	583
		564,103	575,920
Deferred Charges and Other Non-Current Assets:	Bond issuance cost, net	28,774	30,320
	Other deferred charges	33,594	35,815
	Non-current assets held for sale and discontinued operations	1,094	1,933
		63,462	68,068
	Total Assets	$ 3,515,538	$ 3,321,034
	Capitalization and Liabilities		
Capitalization and Non-Current Liabilities:	Retained earnings	$ 272,812	$ 284,622
	Accumulated other comprehensive income (loss)	(160,131)	(139,959)
	Long-term debt (excluding current maturities)	2,679,794	2,518,781
	Retirement benefits	195,160	167,832
	Contributions in aid of construction	81,764	73,486
	Other long-term liabilities	21,828	23,142
	Non-current liabilities directly related to assets held for sale and discontinued operations	48,349	51,110
		3,139,576	2,979,014
Current Liabilities:	Current maturities of long-term debt	73,410	48,417
	Short-term borrowings	64,000	56,000
	Accounts payable and accrued expenses	180,511	178,979
	Accrued taxes	43,854	43,219
	Customer deposits and advance payments	12,308	12,812
	Customer benefits	439	1,115
	Refundable gas and fuel costs	-	433
	Other	459	208
	Current liabilities directly related to assets held for sale and discontinued operations	981	837
		375,962	342,020
Commitments and Contingencies (Note 13):			
	Total Capitalization and Liabilities	$ 3,515,538	$ 3,321,034

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, 2012	2011
Operating Activities:		
Net income (loss)	$ (11,810)	$ 31,647
Depreciation and amortization	120,365	47,311
Amortization of bond discount	1,207	1,135
Equity in earnings of affiliates, net of distributions	5,404	19,861
Allowance for doubtful accounts	7,434	(8,246)
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(6,235)	(42,577)
Natural gas in storage	16,617	3,728
Recoverable/refundable gas and fuel costs	(8,883)	(7,992)
Prepayments and deposits	963	(2,596)
Other current assets	402	(1,634)
Accounts payable and accrued expenses	(30,443)	74,232
Retirement benefits	27,328	(38,940)
Other long-term liabilities	(1,314)	1,977
Net change in deferred charges	(18,899)	(41,211)
Other operating activities	251	90
Net cash provided by operating activities of discontinued operations	(2,128)	7,142
Net cash provided by operating activities	100,259	43,927
Investing Activities:		
Construction expenditures	(263,289)	(45,538)
Purchase of investment securities	(177,667)	(121,290)
Sale and maturity of investment securities	144,049	42,648
Acquisition of water utility, net of cash acquired	-	58,964
Acquisition of wastewater utility, net of cash acquired	-	(779,120)
Other investing activities	(5,006)	2,906
Net cash used by investing activities	(301,913)	(841,430)
Financing Activities:		
Proceeds from bank line of credit	23,000	6,000
Repayment of bank line of credit	(15,000)	-
Proceeds from long-term debt	228,568	1,105,830
Principal payments of long-term debt and bond refunding	(37,970)	(100,531)
Proceeds from bond refunding	-	88,723
Bond issuance costs	(1,652)	(11,188)
Customer benefits arising from nonregulated operations distributable to gas customers	(676)	(804)
Contributions in aid of construction	8,278	-
Net cash provided by financing activities	204,548	1,088,030
Net change in cash and cash equivalents	2,894	290,527
Cash and cash equivalents at beginning of fiscal year	391,095	100,568
Cash and cash equivalents at September 30 of fiscal year	$ 393,989	$ 391,095

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, 2010	$ 253,836	$ (130,095)	$ 123,741
Comprehensive income (loss):			
Net income	31,647		31,647
Comprehensive income of unconsolidated investment		1,994	
Retirement benefit liability changes		(11,858)	(9,864)
Total comprehensive income			21,783
Customer benefit distributions	(861)		(861)
September 30, 2011	$ 284,622	$ (139,959)	$ 144,663
Comprehensive income (loss):			
Net loss	$ (11,810)		$ (11,810)
Comprehensive loss of unconsolidated investment		$ (397)	
Retirement benefit liability changes		(19,775)	(20,172)
Total comprehensive loss			(31,982)
September 30, 2012	$ 272,812	$ (160,131)	$ 112,681

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

Notes to Combined Financial Statements

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

1. Nature of Operations and Basis of Presentation

Nature of Operations

Citizens Energy Group and Subsidiary and CWA Authority, Inc. (combined, the Trusts) provide energy, water and wastewater utility services to customers in and around Marion County, Indiana.

On August 26, 2011, the Trusts closed on the acquisition of the Water and Wastewater utilities from the City of Indianapolis, the Department of Waterworks, and the Department of Public Works - Sanitary District. The financial results of the Water and Wastewater Systems are included in the financial statements beginning on the day of closing for fiscal year 2011 and for a full year of operations for fiscal year 2012. 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 CWA Authority, Inc. (CWA) 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).

Basis of Presentation

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 accounting principles generally accepted in the United States of America (GAAP). The effects of all intercompany transactions have been eliminated.

2. Summary of Significant Accounting Policies

A. Use of Estimates:

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Actual results could differ from those estimates. 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 in service, at original cost, at September 30:

	(In Thousands)		
Utility:	2012	2011	Useful Lives
Distribution	$ 1,718,957	$ 1,700,959	15 – 65 years
Gas Storage	85,347	84,829	33 – 60 years
Production	45,746	43,693	50 – 75 years
Transmission	42,825	37,616	22 – 60 years
Treatment	1,345,944	1,321,388	40 – 50 years
Collection	1,050,607	1,048,833	40 – 50 years
Pumping	132,102	131,766	40 – 50 years
Source of Supply	196,772	196,834	40 – 50 years
General Plant	64,736	67,580	5 – 30 years
	$ 4,683,036	$ 4,633,498	
Non-utility:			
Distribution	$ 30,126	$ 29,858	40 – 55 years
Production	43,693	43,111	5 – 40 years
General Plant	638	529	5 – 25 years
	$ 74,457	$ 73,498	

Depreciation expense was $107.8 million and $37.5 million in 2012 and 2011, respectively. Depreciation expense as a percentage of original depreciable cost is as follows:

	2012	2011
Citizens Gas	**3.6%**	3.6%
Water	**2.0%**	2.0%
Wastewater	**2.5%**	2.5%
Steam	**4.0%**	4.0%
Chilled Water	**3.5%**	3.7%
Oil	**21.7%**	22.0%
Resources (Westfield Gas)	**3.6%**	3.8%

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 $10.6 million and $0.9 million in 2012 and 2011, 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, water delivered, and wastewater service since the last customer billing dates to month-end is accrued based on actual demand data for the calendar month. The accrual for unbilled revenues is reversed in the subsequent accounting period when meters are actually read and customers are billed. Meter readings are taken as of month-end for Steam and Chilled Water customers, with billings rendered as of month-end for all such customers.

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

The Trusts monitor quality and associated risks of notes receivable on an individual basis based on criteria such as financial stability of the party and collection experience in conjunction with general economic and market conditions. As of September 30, 2012, none of the outstanding notes receivable are past due. The following table presents the Trusts' notes receivable, whose carrying value approximates fair value, as of September 30, 2012 (in thousands):

	Notes Receivable at September 30, 2012		
Description	Unpaid Balance	Related Allowance	Receivable Net of Allowance
Note Receivable from Brown County	$ 1,539	$ -	$ 1,539
Note Receivable from City of Carmel	$ 17,647	$ -	$ 17,647
	$ 19,186	$ -	$ 19,186

E. Inventory:

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

F. 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 (in the case of CEG), 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. As of and through September 30, 2012, the income of the Westfield Gas Corporation and Citizens Energy Services Corporation were subject to Federal and state income taxes. Both entities were converted to limited liability companies at year end satisfying the requirements of Internal Revenue Code section 115 so that all income earned by the entities thereafter will be exempt from 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 $6.7 million and $5.5 million in 2012 and 2011, respectively. The expense associated with these taxes is recorded in operating expenses as taxes.

G. Recoverable (Refundable) Gas and Fuel Costs:

The difference between actual gas costs, 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 clause (FAC) permitted by the IURC. Steam is authorized to change its FAC factors each quarter as a result of changes in market prices.

H. Bond Issuance Costs:

Bond premiums 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.

I. 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 $337.0 million and $240.2 million at September 30, 2012 and 2011, respectively.

J. Supplemental Disclosures of Cash Flow Information:

	(In Thousands) 2012	2011
Cash paid during the year for:		
Interest	$ 104,160	$ 23,265
Non-cash investing activities were as follows:		
Accrued construction work-in-progress	$ 35,098	$ 7,860
Comprehensive gain (loss) on investment in affiliates	397	(1,994)
Total non-cash investing activities	$ 35,495	$ 5,866

K. 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, 2012 and 2011 (in thousands):

	2012 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	$ 337,039	$ -	$ -
Bond restricted funds	192,294	-	-
Derivatives	843	-	-
Total financial assets measured at fair value	$ 530,176	$ -	$ -

	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	$ -	$ -

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, 2012 was $0.8 million with a notional dollar value of $0.2 million. The fair value of derivatives at September 30, 2011 was $0.4 million with a notional dollar value of $0.9 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 2012.

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 $3.044 billion and $2.661 billion at September 30, 2012 and 2011, versus carrying value of $2.753 billion and $2.567 billion at September 30, 2012 and 2011, respectively.

Held-to-maturity short-term investments are held at a carrying value of $0.5 million and $6.0 million as of September 30, 2012 and 2011, respectively, which approximated fair value.

L. 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 no impairment in 2012. An impairment charge of $0.9 million was recorded 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.M.

M. 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, 2012 and 2011. Accumulated amortization for all intangible customer contracts was $32.9 million and $28.7 million at September 30, 2012 and 2011, respectively. Amortization expense of such assets was $4.2 million and $5.8 million in 2012 and 2011, respectively. Estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows:

	(In Thousands)
2013	$ 4,222
2014	4,222
2015	4,222
2016	4,222
2017	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.

N. 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.

On November 29, 2011, Citizens Gas and Citizens Gas of Westfield filed a joint petition with the IURC requesting approval to extend the provision of energy efficiency programs and continue rate adjustment mechanisms that had been approved in prior rate cases, including a rider that provides for the recovery of costs incurred in connection with the energy efficiency programs as well as a decoupling mechanism that is designed to allow Citizens Gas to recover the non-gas costs authorized for recovery in the utility's most recent base rate case order. In the testimony it filed, the Indiana Office of Utility Consumer Counselor, among other things, recommended the Commission not approve continuation of the decoupling mechanism in its present form. A hearing was held on November 9, 2012. CEG expects an IURC order in this case may not be issued until the third quarter of fiscal year 2013. The existing decoupling mechanism will remain in place until the IURC issues its final order in this case.

Westfield Gas

Westfield Gas' most recent rate order became effective March 15, 2010.

Citizens Thermal Steam

Citizens Thermal Steam's most recent rate order became effective May 11, 2010.

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 then owned and operated by the Department of Waterworks and the assets of the wastewater utility then 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 which included rate increases of 10.75 percent on each of January 1, 2012 and 2013. 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 including adoption of the rates and charges as requested by CEG and CWA.

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 beginning January 1, 2014 CWA's recovery of debt service costs incurred to comply with a federal consent decree regarding the reduction of combined sewer overflows in the City. On June 14, 2012, the IURC approved the ECPRM.

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 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.

O. Software Developed for Internal Use:

Internal and external costs incurred during the preliminary project stage associated with the development of internal use software are expensed as incurred. External direct costs of materials and services, internal direct payroll and payroll-related costs, and interest costs for the use of funds incurred during the application development stage associated with developing or obtaining internal use software are capitalized. Capitalized software costs were $3.3 million and $3.1 million in 2012 and 2011, respectively. Internal and external training and maintenance costs incurred during the post-implementation stage associated with the development of internal use software are expensed as incurred.

P. Comprehensive Income (Loss):

Comprehensive income (loss) is primarily a measure of all changes in equity of an enterprise which result from the transactions or other economic events during the period. This information is reported in the Combined Statements

Regulatory assets were comprised of the following at September 30, 2012 and 2011 (in thousands):

	2012	2011	Recovery/Refund Period	Statement of Financial Position Location
Deferred Acquisition Transaction Costs	$ 11,531	$ 12,621	29 - 30 years	Other deferred charges
Decoupled Sales Component	6,970	8,140	1 - 15 months	Other deferred charges
Deferred Post-Retirement Benefit Costs	902	1,353	through 2014	Other deferred charges
Deferred Regulatory Proceeding Costs	787	1,188	various	Other deferred charges
Price Volatility Mitigation Program	690	868	1 - 13 months	Recoverable gas and fuel costs
Deferred Remediation Costs	1,757	833	not yet recovered	Other deferred charges
Deferred Fuel Tracking Adjustments	10,417	618	1 - 18 months	Recoverable gas and fuel costs
Other	4	512	various	Other deferred charges
Total Regulatory Assets	$ 33,058	$ 26,133		

Regulatory liabilities were comprised of the following at September 30, 2012 and 2011 (in thousands):

	2012	2011	Recovery/Refund Period	Statement of Financial Position Location
Contributions in Aid of Construction	$ 81,765	$ 73,486	40 - 50 years	Contributions in aid of constr.
Regulatory Credit for Remediation	5,705	5,705	not yet refunded	Other long-term liabilities
Deferred Fuel Tracking Adjustments	-	433	1 - 18 months	Refundable gas and fuel costs
Deferred Water Rights	750	-	10 - 11 years	Other long-term liabilities
Other	$ 266	$ 137	various	Accts. payable and accr. exp.
Total Regulatory Liabilities	$ 88,486	$ 79,761		

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.

Q. 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 2011, $0.9 million was authorized and approved for distribution as a result of fiscal year 2011 operations and was distributed in calendar year 2012.

R. 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 statement of financial position is $13.3 million and $13.5 million at September 30, 2012 and 2011, respectively.

Contributions in aid of construction are permanent collections of plant assets or cash for a particular construction project. The IURC requires the Water and Wastewater 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, 2012 for Water and Wastewater are $55.4 million and $26.4 million, respectively, versus the values at September 30, 2011 for Water and Wastewater of $51.7 million and $21.8 million, respectively.

S. New Accounting Guidance:

The Financial Accounting Standards Board (FASB) issued guidance intended to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The objective is for an entity to provide disclosures that facilitate financial statement users' evaluation of (1) the nature of credit risk inherent in the entity's portfolio of financing receivables, (2) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (3) the changes and reasons for those changes in the allowance for credit losses. This guidance is effective for fiscal years ending after December 15, 2011. The Trusts adopted this guidance on October 1, 2011.

FASB issued guidance intended to result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. In some cases, the amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This guidance is applicable to the Trusts beginning in fiscal year 2013. The Trusts are currently assessing the impact this guidance will have on its combined financial statements.

FASB issued guidance modifying its previously-issued guidance on the presentation of comprehensive income. This modification effectively defers those changes in comprehensive income guidance that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. This guidance will be temporary to allow the FASB time to re-deliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statement. This guidance is applicable to the Trusts beginning in fiscal year 2013.

FASB issued guidance amending the disclosures about offsetting assets and liabilities. This guidance will impact entities that have financial and derivative instruments that are either offset in accordance with certain sections of the guidance, or are subject to an enforceable master netting arrangement or similar agreement. This guidance is applicable to the Trusts beginning in fiscal year 2014. The Trusts are currently assessing the impact this guidance will have on its combined financial statements.

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 $958.3 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. For Wastewater, 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 2011 reporting period, the purchase price allocation information in the 2011 annual report was preliminary. During the current reporting period, an appraisal of the systems was conducted which found that the fair value of the systems was equal to the consideration transferred. The following table summarizes the final purchase price allocation to assets acquired and liabilities assumed for each acquired utility:

	(In Thousands)	
	Water	Wastewater
Property, Plant and Equipment	$ 1,007,986	$ 880,611
Investments	79,941	3,770
Cash	58,964	18,534
Other Current Assets	3,816	3,228
Deferred Charges and Other Non-Current Assets	2,477	-
Total Assets Acquired	$ 1,153,184	$ 906,143
Long-Term Debt (excluding current maturities)	$ 940,890	$ 41,803
Retirement Benefits	106,702	-
Contributions in Aid of Construction	51,488	21,420
Other Long-Term Liabilities	14,309	1,062
Current Construction Payables and PILOT	39,795	44,204
Total Liabilities Assumed	$ 1,153,184	$ 108,489
Net Assets Acquired	$ -	$ 797,654

Regulatory accounting standards require 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.

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 in Accounts Receivable, less Allowance for Doubtful Accounts and Accrued Utility Revenues with offsetting amounts in Accounts Payable and Accrued Expenses. The amounts recorded in the Statements of Financial Position as of August 26, 2011 are summarized below. CEG and CWA recorded $46.8 million in Accounts Payable and Accrued Expenses to the City as a result of this transaction.

	(In Thousands)	
	Water	Wastewater
Accounts Receivable	$ 17,925	$ 14,351
Allowance for Doubtful Accounts	(1,317)	(6,121)
Accrued Utility Revenues	9,004	12,916
Net Receivables	$ 25,612	$ 21,146
Accounts Payable and Accrued Expenses	$ 25,612	$ 21,146

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.

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 approval order 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, 2012, the life-to-date Transactional costs totaled $12.6 million. 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 approval order also allowed for the recovery of all Financing costs incurred. Financing costs for Water and Wastewater were $1.3 million and $9.6 million, respectively. Financing costs were recorded as Deferred Charges. See Notes 2.G and 6 for more information.

Integration costs incurred in 2011 and 2012 totaled $6.2 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 $2.9 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 securities, commercial paper, and cash equivalents. Gross deposits and amounts acquired to the bond restricted fund investments during 2012 and 2011 were $175.3 million and $163.9 million, respectively.

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 $103.9 million and $166.5 million of gas from ProLiance in 2012 and 2011, respectively. In addition, CEG received less than $0.1 million in 2012 and 2011 from ProLiance as reimbursement for various general and administrative expenses. At September 30, 2012 and 2011, CEG owed ProLiance $8.0 million and $10.9 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 $0.2 million and $0.3 million to RPS for services in 2012 and 2011, respectively. 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 2012 and 2011. 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. CEG received storage rental fees from Heartland of $0.6 million in 2012 and 2011. Heartland is accounted for under the equity method.

Resources has a 45% 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).

		2012	
	ProLiance	Other	Total
Condensed Statement of Operation:			
Revenues	$ 1,072,639	$ 6,883	$ 1,079,522
Operating income (loss)	(11,944)	1,806	(10,138)
Net income (loss)	(14,293)	1,384	(12,909)
Condensed Statement of Financial Position:			
Current assets	$ 248,238	$ 3,763	$ 252,001
Non-current assets	56,497	18,685	75,182
	$ 304,735	$ 22,448	$ 327,183
Current liabilities	$ 179,327	$ 1,743	$ 181,070
Non-current liabilities	2,881	5,508	8,389
Equity	122,527	15,197	137,724
	$ 304,735	$ 22,448	$ 327,183

		2011	
	ProLiance	Other	Total
Condensed Statement of Operation:			
Revenues	$ 1,476,721	$ 7,164	$ 1,483,885
Operating income (loss)	(48,555)	1,916	(46,639)
Net income (loss)	(51,264)	1,448	(49,816)
Condensed Statement of Financial Position:			
Current assets	$ 300,287	$ 3,267	$ 303,554
Non-current assets	56,438	19,278	75,716
	$ 356,725	$ 22,545	$ 379,270
Current liabilities	$ 217,871	$ 1,774	$ 219,645
Non-current liabilities	3,642	6,167	9,809
Equity	135,212	14,604	149,816
	$ 356,725	$ 22,545	$ 379,270

6. Long-Term Debt

Long-term debt consisted of the following:

	(In Thousands) 2012	2011
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	60,140	62,965
Gas Utility Distribution System Series 2009A, Second Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2009 to 2018	12,630	21,500
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	4,382	4,590
Current Maturities	(12,280)	(11,695)
Subtotal Citizens Gas Long-Term Debt	297,112	309,600

	(In Thousands) 2012	2011
Water		
Water Utility Net Revenue Bonds Series 2011A, 4.375% to 5.500%, due 2011 to 2014	12,570	19,730
Water Utility Net Revenue Bonds Series 2011B, 4.00% to 5.00%, due 2011 to 2029	69,805	69,915
Water Utility Net Revenue Bonds Series 2011C, 5.50%, due 2011 to 2022	77,830	77,830
Water Utility Net Revenue Bonds Series 2011D, 5.25%, due 2022 to 2025	70,410	70,410
Water Utility Net Revenue Bonds Series 2011E, 3.75% to 5.25%, due 2011 to 2038	99,380	101,705
Water Utility Net Revenue Bonds Series 2011F, 4.00% to 5.00%, due 2012 to 2038	552,705	559,890
Water Utility Net Revenue Bonds Series 2011G, 2.00% to 5.125%, due 2012 to 2041	58,190	58,790
Second Lien Water Utility Revenue Bonds Series 2011B, 3.00%, due 2014	42,905	42,905
Net Unamortized Bond Premiums	1,178	1,754
Current Maturities	(18,565)	(17,380)
Subtotal Water Long-Term Debt	966,408	985,549
Wastewater		
CWA Wastewater Utility Revenue Bonds Series 2011A, 2.00% to 5.25%, due 2012 to 2041	678,480	678,480
CWA Wastewater Utility Revenue Bonds Series 2011B, 5.00% to 5.25%, due 2014 to 2041	268,015	268,015
CWA Second Lien Wastewater Utility Revenue Bonds Series 2011C, 3.00%, due 2016	45,990	45,990
CWA Wastewater Utility Revenue Bonds Series 2012A, 2.75% to 5.00%, due 2014 to 2042	192,125	–
Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds, see table below	41,803	43,903
Net Unamortized Bond Premiums	69,667	49,021
Current Maturities	(12,318)	(2,100)
Subtotal Wastewater Long-Term Debt	1,283,762	1,083,309

	(In Thousands) 2012	2011
Thermal		
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	10,240	10,620
Thermal Energy System Revenue Refunding Bonds Series 2010B, 1.50% to 5.00%, due 2011 to 2021	71,720	78,135
Wishard Construction Loan (based on LIBOR plus a margin, with a rate of 0.24% at September 30, 2011), due 2013	23,637	10,447
Net Unamortized Bond Premiums and Discounts	7,092	8,294
Current Maturities	(30,247)	(17,242)
Subtotal Thermal Long-Term Debt	132,512	140,324
Total Long-Term Debt	$ 2,679,794	$ 2,518,781

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

	(In Thousands)
2013	$ 73,410
2014	96,905
2015	64,131
2016	71,904
2017	118,582
Thereafter	2,245,953
Total principal maturities	$ 2,670,885

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 bonds issued in connection with the acquisition of the Water System were issued pursuant to a trust indenture 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 succeeded to the obligations of the Indianapolis Waterworks Department, the payments on which supported debt service, with respect to the $958.3 million of the Indianapolis Local Public Improvement Bond Bank (Bond Bank) and $0.3 million of District Subordinate Taxable Notes. The Bond Bank agreed to exchange its Department of Waterworks Bonds for identical bonds of CEG. 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 2.00 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 can be used to fund capital improvements, working capital and the initial start-up costs related to the acquisition and operation of the Water System. The second lien bonds are subordinate to the first lien bonds.

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. The second lien bonds are subordinate to the first lien bonds. 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, 2012 are as follows:

	(In Thousands)
Wastewater General Obligation Bonds Series 1993A, 5.90%, due 2012 to 2013	$ 4,660
Wastewater General Obligation Bonds Series 2003A, 5.250%, due 2012 to 2018	6,838
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	235
Wastewater General Obligation Bonds Series 2009A, 2.75% to 4.00%, due 2012 to 2015	1,500
Total Wastewater General Obligation Bond Debt	$ 41,803

On September 19, 2012, CWA issued $192.1 million of First Lien Wastewater Utility Revenue Bonds. The Series 2012A Series bonds were issued at a premium of $21.6 million and have principal maturities due between 2014 and 2042 with coupons ranging from 2.75% to 5.00%. The bonds were issued to fund a portion of 2012 and 2013 capital improvements including repaying draws on the Wells Fargo line of credit (see Note 7).

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. On August 1, 2012, Citizens executed an extension of the construction loan with J.P. Morgan. The new termination date is September 15, 2013. At September 30, 2012 and 2011, the amount borrowed was $23.6 million and $10.4 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 2012:

	Minimum Covenant Requirement	2012 Actual
GUS Revenue Refunding Bonds Series 1986B	1.4	8.07
GUDS Revenue Refunding Bonds Series 2008A, Series 2008B, Series 2008C, Series 2009A and Series 2010A Second Lien Multi-Mode Revenue and Revenue Refunding Bonds	1.0	1.99
Water Utility Net Revenue Bonds Series 2011A-2011G	1.1	1.23
Second Lien Water Utility Revenue Bonds Series 2011B	1.1	1.21
CWA Wastewater Utility Revenue Bonds Series 2011A-2011B, Series 2012A	1.2	2.54
Second Lien CWA Wastewater Utility Revenue Bonds Series 2011C	1.1	1.85
Thermal Energy System Revenue Bonds Series 2008, 2010A and 2010B	1.0	1.54

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, 2012, the Trusts were in compliance with all debt covenants.

For purposes of the debt service coverage, per the Water System indenture, Citizens may transfer funds from revenues to the Rate Stabilization Fund in any fiscal year. Subsequently, so long as the funds were not transferred to the Rate Stabilization Fund during such fiscal year, Citizens may transfer funds from the Rate Stabilization Fund to revenues. As of September 30, 2012, the Water System maintains $6.9 million in the Rate Stabilization Fund. Therefore, the $6.9 million in the fund as of September 30, 2012 may be used as an addition to revenues for calculating debt service coverage beginning in fiscal 2013. Additionally, these funds are available for use as liquidity. If these funds were not subtracted from fiscal 2012 revenues for purposes of the 2012 first lien Water System debt service coverage calculation, first lien debt service coverage would equal 1.33 and second lien debt service coverage would equal 1.31.

7. Short-Term Borrowings

Citizens Gas had $50.0 million in commercial paper outstanding at September 30, 2012 and 2011. The commercial paper has a maximum maturity of 270 days and is to be re-marketed in November 2012. 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, 2012, 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. This line of credit is with PNC. The other $25.0 million line of credit, with JPMorgan Chase was renewed for a three-year term in August 2012 with an interest rate of LIBOR plus 1.30 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, 2012, Wastewater had no amount outstanding under such lines of credit, so the entire amount remained available as specified above. The applicable rate of interest on balances drawn on the line was 70 percent of LIBOR plus 0.8 percent as of September 30, 2012. The 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.

In August 2012, Citizens executed a $50.0 million line of credit to support capital expenditures for the water utility with PNC. The line of credit will terminate on August 17, 2015 and has an interest rate of 68.5 percent of LIBOR plus 0.39 percent. The entire capacity of the line of credit was available at September 30, 2012.

Thermal expanded its working capital line of credit with JPMorgan Chase in July 2012 to $20.0 million. As of September 30, 2012, Thermal had $14.0 million outstanding under such lines of credit, thus $6.0 million of capacity remained. The line of credit has a maturity date of June 2014 with an interest rate of LIBOR plus 1.30 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, 2012 and 2011, respectively:

	(In Thousands)	
	2012	2011
Accounts payable	$ 84,654	$ 103,695
Accrued interest	45,135	24,939
Customer credit balances	19,407	15,627
Salaries and employee benefits	18,918	18,473
Related party payable - ProLiance	8,021	10,734
Post-retirement benefits	3,565	4,336
Other	811	1,175
Total accounts payable and accrued expenses	$ 180,511	$ 178,979

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 $1.4 million and $1.2 million in 2012 and 2011, respectively.

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. 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, $4.5 million and $4.0 million through September 30, 2012 and 2011, respectively, leaving a deferred balance of $0.9 million and $1.4 million as of September 30, 2012 and 2011, 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, 2012 and 2011:

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2012	2011	2012	2011
Projected Benefit Obligation (PBO)	$ 343,057	$ 285,452	$ 76,532	$ 76,642
Plan assets at fair value	211,311	175,710	-	-
Funded status	$ (131,746)	$ (109,742)	$ (76,532)	$ (76,642)
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Current liability	$ -	$ -	$ (4,001)	$ (4,875)
Non-current liability	(131,746)	(109,742)	(72,531)	(71,767)
Net amounts recognized	$ (131,746)	$ (109,742)	$ (76,532)	$ (76,642)
Amounts in Accumulated Other Comprehensive Income (AOCI) not in costs*:				
Unrecognized transition obligation	$ -	$ -	$ 604	$ 1,192
Unrecognized prior service cost	2,447	2,808	(10,465)	(4,668)
Unrecognized actuarial loss	144,870	124,875	16,736	10,278
Total Amounts in AOCI	$ 147,317	$ 127,683	$ 6,875	$ 6,802

* The amounts expected to be recognized in 2013 out of AOCI, are $9.0 million for the defined benefit pension plan and $1.0 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)	
	2012	2011	2012	2011
Service cost-benefits attributed to service during the period	$ 8,803	$ 6,458	$ 2,565	$ 1,163
Interest cost	12,601	12,476	3,071	1,494
Actual loss (gain) on assets	(31,470)	2,896	-	-
Amortization of transition obligation	-	-	588	588
Amortization of prior service cost	361	362	(682)	135
Amortization of loss	7,374	6,727	524	224
Deferred actuarial (loss) gain	19,597	(15,609)	-	-
Net periodic benefit cost	17,266	13,310	6,066	3,604
Curtailment expense (gain)** loss	-	(3,387)	-	(46,242)
Total expense for the year	$ 17,266	$ 9,923	$ 6,066	$ (42,638)

** 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	
	2012	2011	2012	2011
Average discount rate	3.70%	4.54%	3.38%	4.13%
Rate of increase in future compensation levels	3.50%	3.50%	-	-

	Water Defined Benefit Pension	
	2012	2011
Average discount rate	3.19%	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	
	2012	2011	2012	2011
Average discount rate	4.54%	5.00%	4.13%	4.30%
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	
	2012	2011
Average discount rate	4.21%	4.47%
Rate of increase in future compensation levels	-	3.50%
Expected long-term rate of return on assets	6.71%	6.71%

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

	CEG Other Benefit	
	2012	2011
Health care cost trend rate assumed for next year	8.50%	8.50%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2019	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 2012 and 2011.

The following table presents the pension assets measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2012 and 2011 (in thousands):

	2012 Fair Value Measurements Using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension Assets:			
Cash equivalents	$ 6,400	$ -	$ -
Equities	123,562	8,389	-
Fixed Income	72,960	-	-
Other Assets	-	-	-
Total pension assets measured at fair value	$ 202,922	$ 8,389	$ -

	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)
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	$ -	$ -

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

CEG's pension plan weighted-average asset allocation as of September 30, 2012 and 2011, by asset category is as follows:

	2012	2011
Equity securities	60%	57%
Debt securities	37%	38%
Other	3%	5%
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)	
	2012	2011	2012	2011
Employer contributions (net of participant contributions)	$ 14,895	$ 13,349	$ 6,229	$ 3,190
Benefits paid	12,029	11,809	6,229	3,190

CEG expects to contribute, at a minimum, $15.1 million to the pension plans for 2013. 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)
2013	$ 12,855	$ 4,001
2014	13,275	4,118
2015	14,272	4,190
2016	14,991	4,570
2017	15,992	5,019
Years 2018-2022	92,816	30,190

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)	
	2012	2011
Effect on total of service and interest cost	$ 665	$ 856
Effect on post-retirement benefit obligation	8,558	8,214

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, Other 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.N.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, 2012 and 2011 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, 2012

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Total
Operating revenues:									
Utility operating revenues	$ 255,065	$ 170,856	$ 156,516	$ 64,303	$ -	$ -	$ 3,866	$ -	$ 650,606
Non-utility operating revenues	-	-	-	-	39,645	6,168	-	-	45,813
Total operating revenues	255,065	170,856	156,516	64,303	39,645	6,168	3,866	-	696,419
Operating expenses:									
Cost of goods sold:									
Utility cost of goods sold	119,271	-	-	35,896	-	-	1,582	-	156,749
Non-utility cost of goods sold	-	-	-	-	13,124	-	-	-	13,124
Total cost of goods sold	119,271	-	-	35,896	13,124	-	1,582	-	169,873
Operations and maintenance	73,333	76,554	60,969	23,532	8,420	1,757	4,680	341	249,586
Depreciation and amortization	21,286	36,444	52,019	4,201	5,884	333	443	-	120,610
Taxes	8,729	12,706	14,699	1,298	1,874	105	1,289	237	40,937
Total operating expenses	222,619	125,704	127,687	64,927	29,302	2,195	7,994	578	581,006
Total operating income (loss)	32,446	45,152	28,829	(624)	10,343	3,973	(4,128)	(578)	115,413
Other income (expense)-net:									
Interest income	65	2,616	158	1	23	-	47	9	2,919
Other	51	246	11	-	(15)	-	4	(3,879)	(3,582)
Total other income (expense)	116	2,862	169	1	8	-	51	(3,870)	(663)
Income (loss) before equity in earnings of affiliates and interest charges	32,562	48,014	28,998	(623)	10,351	3,973	(4,077)	(4,448)	114,750
Equity in earnings of affiliates	-	-	-	-	-	-	(4,898)	-	(4,898)
Interest charges:									
Interest on long-term debt	15,122	51,289	51,250	2,962	3,266	-	-	-	123,889
Other interest including net premium (discount) amortization	2,091	(801)	(9,301)	72	(526)	-	-	(131)	(8,596)
Total interest charges	17,213	50,488	41,949	3,034	2,740	-	-	(131)	115,293
Income (loss) from continuing operations	15,349	(2,474)	(12,951)	(3,657)	7,611	3,973	(8,975)	(4,317)	(5,441)
Loss from discontinued operations	-	-	-	-	-	-	-	(6,369)	(6,369)
Net income (loss)	$ 15,349	$ (2,474)	$ (12,951)	$ (3,657)	$ 7,611	$ 3,973	$ (8,975)	$ (10,686)	$ (11,810)

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	$ 15,419	$ 68,796	$ -	$ -	$ 4,677	$ -	$ 418,794
Non-utility operating revenues	-	-	-	-	38,506	6,157	148	-	44,811
Total operating revenues	309,362	20,540	15,419	68,796	38,506	6,157	4,825	-	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
Operations and maintenance	89,220	7,677	7,288	23,456	8,098	1,718	3,745	350	141,552
Curtailment of Acquired Benefit Plans	-	(49,629)	-	-	-	-	-	-	(49,629)
Depreciation and amortization	23,678	3,359	4,963	5,515	5,693	360	568	-	44,136
Taxes	7,959	1,473	1,423	1,140	1,718	102	664	110	14,589
Total operating expenses	293,826	(37,120)	13,674	68,042	28,016	2,180	7,360	460	376,438
Total operating income (loss)	15,536	57,660	1,745	754	10,490	3,977	(2,535)	(460)	87,167
Other income (expense)-net:									
Interest income	198	19	-	-	3	1	89	(1)	309
Other	83	12	-	(80)	15	-	3	4,302	4,335
Total other income (expense)	281	31	-	(80)	18	1	92	4,301	4,644
Income (loss) before equity in earnings of affiliates and interest charges	15,817	57,691	1,745	674	10,508	3,978	(2,443)	3,841	91,811
Equity in earnings of affiliates	-	-	-	-	-	-	(19,282)	-	(19,282)
Interest charges:									
Interest on long-term debt	15,844	5,030	4,973	2,907	3,179	-	-	-	31,933
Other interest including net premium (discount) amortization	2,431	(10)	(511)	(41)	1,551	-	-	(24)	3,396
Total interest charges	18,275	5,020	4,462	2,866	4,730	-	-	(24)	35,329
Income (loss) from continuing operations	(2,458)	52,671	(2,717)	(2,192)	5,778	3,978	(21,725)	3,865	37,200
Loss from discontinued operations	-	-	-	-	-	-	-	(5,553)	(5,553)
Net income (loss)	$ (2,458)	$ 52,671	$ (2,717)	$ (2,192)	$ 5,778	$ 3,978	$ (21,725)	$ (1,688)	$ 31,647

Segment Footnote - Combined Statement of Financial Position

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)
At September 30, 2012

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	**Total**
Assets									
Property, Plant and Equipment	$ 294,695	$ 1,008,727	$ 1,038,221	$ 61,914	$ 68,483	$ 432	$ 8,591	$ 26,705	**$ 2,507,768**
Intangibles	-	-	-	22,071	74,728	-	-	-	**96,799**
Investments	19,322	88,685	110,249	5,423	5,150	-	53,003	1,574	**283,406**
Cash and Cash Equivalents	56,926	62,575	195,336	1,691	14,338	4,618	28,925	29,580	**393,989**
Other Current Assets	98,382	39,550	36,554	14,362	9,379	768	2,127	(31,008)	**170,114**
Deferred Charges and Other Non-Current Assets	26,044	12,869	15,350	2,524	1,147	12	969	4,547	**63,462**
Total Assets	$ 495,369	$ 1,212,406	$ 1,395,710	$ 107,985	$ 173,225	$ 5,830	$ 93,615	$ 31,398	**$ 3,515,538**
Capitalization and Liabilities									
Retained Earnings and Accumulated OCI	$ 978	$ 54,584	$ (15,667)	$ (664)	$ 74,657	$ 4,852	$ 90,924	$ (96,983)	**$ 112,681**
Long-Term Debt	297,112	966,408	1,283,762	63,240	69,272	-	-	-	**2,679,794**
Retirement Benefit and Other Long-Term Liabilities	66,269	115,286	27,342	10,815	2,956	678	-	123,755	**347,101**
Current Liabilities	131,010	76,128	100,273	34,594	26,340	300	2,691	4,626	**375,962**
Total Capitalization and Liabilities	$ 495,369	$ 1,212,406	$ 1,395,710	$ 107,985	$ 173,225	$ 5,830	$ 93,615	$ 31,398	**$ 3,515,538**

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	$ 1,006,624	$ 889,290	$ 56,414	$ 60,778	$ 712	$ 8,784	$ 13,067	$ 2,327,715
Intangibles	-	-	-	23,055	77,967	-	-	-	101,022
Investments	18,747	86,646	72,420	5,537	5,309	-	59,025	625	248,309
Cash and Cash Equivalents	55,610	105,503	179,443	2,574	20,408	4,958	38,826	(16,227)	391,095
Current Assets	94,678	32,516	31,329	11,184	(4,447)	(3,980)	(4,431)	27,976	184,825
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	$ 1,241,920	$ 1,187,071	$ 101,693	$ 161,202	$ 1,772	$ 102,819	$ 32,841	$ 3,321,034
Capitalization and Liabilities									
Retained Earnings and Accumulated OCI	$ 2,857	$ 56,561	$ (2,718)	$ 5,174	$ 65,222	$ 1,137	$ 100,296	$ (83,866)	$ 144,663
Long-Term Debt	309,600	985,549	1,083,308	66,870	73,454	-	-	-	2,518,781
Retirement Benefit and Other Long-Term Liabilities	49,603	115,629	22,827	8,105	4,616	379	300	114,111	315,570
Current Liabilities	129,656	84,181	83,654	21,544	17,910	256	2,223	2,596	342,020
Total Capitalization and Liabilities	$ 491,716	$ 1,241,920	$ 1,187,071	$ 101,693	$ 161,202	$ 1,772	$ 102,819	$ 32,841	$ 3,321,034

Capital Expenditures – Accrual Basis

	Capital Expenditures (In Thousands)	
	2012	2011
Citizens Gas	$ 22,026	$ 19,505
Water	38,128	972
Wastewater	199,071	13,470
Steam	7,893	7,148
Chilled Water	10,046	10,260
Oil	-	60
Resources (Westfield Gas)	181	77
Other	18,060	1,894
Total	$ 295,405	$ 53,386

Additional Thermal Financial Information

Additional Thermal financial information for the years ended September 30, 2012 and 2011 is summarized as follows:

	(In Thousands)	
	2012	2011
Net Income	$ 3,954	$ 3,586
Total Liabilities	207,217	192,499
Equity	73,993	70,396
Interest Charges on Long-Term Debt	6,228	6,086
Cash Flow Information:		
Cash and Cash Equivalents,		
Beginning of Fiscal Year	$ 22,982	$ 13,928
Cash Provided by Operating Activities	20,538	31,575
Cash Used in Investing Activities	(18,005)	(17,779)
Cash Used in Financing Activities	(9,486)	(4,742)
Cash and Cash Equivalents,		
End of Fiscal Year	$ 16,029	$ 22,982

11. Manufacturing Discontinuation of Production and Related Asset Retirement Obligations

The Manufacturing segment, d.b.a. Indianapolis Coke, ceased operations on July 13, 2007. Manufacturing (reported as Discontinued Operations) plant assets were $1.1 million and $1.9 million at September 30, 2012 and 2011, respectively, representing the estimated remaining salvage value of the plant. Final costs relating to the closure, including liquidation of inventories, plant demolition and environmental remediation are reflected in the accompanying combined financial statements in accordance with FASB guidance related to 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 combined financial statements as part of the asset retirement obligation.

The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) for fiscal years ended September 30, 2012 and 2011 are as follows:

	(In Thousands)	
	2012	2011
Current Assets	$ 932	$ 583
Deferred Charges and Other		
Non-Current Assets	1,094	1,933
Total Assets	$ 2,026	$ 2,516
Retained Earnings and Accumulated OCI	$ (47,511)	$ (49,827)
Retirement Benefit and Other		
Long-Term Liabilities	48,349	51,110
Current Liabilities	1,188	1,233
Total Capitalization and Liabilities	$ 2,026	$ 2,516

For fiscal years ended September 30, 2012 and 2011, Discontinued Operations operating expenses were $6.4 million and $5.6 million, respectively.

The activity for fiscal years 2011 and 2012 for the asset retirement obligation liability is as follows:

	(In Thousands)
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
Accretion expense	4,570
Demolition liabilities settled	(1,857)
Remediation liabilities settled	(1,436)
Asset retirement obligation at 9/30/12	$ 37,232

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 CEG's derivative instruments and hedge activities. The first table provides a financial position overview of CEG's Derivative Assets and Liabilities as of September 30, 2012 and 2011, respectively, while the latter table provides a breakdown of the related impact on the results of operations for the fiscal years ended September 30, 2012 and 2011, respectively. CEG recovers all derivative costs through its regulatory mechanism for gas cost adjustments.

2012 Fair Value of Derivative Instruments (in Thousands)

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	$1,290	($447)

2011 Fair Value of Derivative Instruments (in Thousands)

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)

(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 8.6 million and 4.7 million dekatherms at September 30, 2012 and 2011, 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 $0.7 million and $0.9 million at September 30, 2012 and 2011, respectively. The margin asset was $0.8 million and less than $0.1 million at September 30, 2012 and September 30, 2011, respectively.

Derivative Impact on Statement of Operations (in Thousands)

Derivative Instrument	Derivative Designation	Statement of Operations Location	September 30, 2012
Commodity contracts	Not accounted for as a hedge	Gain in Utility Cost of Goods Sold	$4,001

Derivative Impact on Statement of Operations (in Thousands)

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

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, 2012 and 2011 was a decrease of $0.3 million and an increase of $0.9 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. 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.

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. 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 $133.9 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. In accordance with the Asset Purchase Agreement and the Transition Services Agreement, CEG paid the City an amount equal to $22.3 million as settlement for outstanding accounts receivable as of the closing date and agreed to be responsible for $5.3 million constituting construction 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. In accordance with the Asset Purchase Agreement and the Transition Services Agreement, CWA paid the City an amount equal to $19.7 million as settlement for outstanding accounts receivable as of the closing date and agreed to be responsible for $19.8 million constituting construction 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 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 were $37.1 million in 2012, which included $4.7 million for stormwater management. Management and incentive fee expenses with United Water are expected to be $38.8 million during 2013 which includes $4.7 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 has approved 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 will 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 receives 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 $11.4 million and $10.1 million for the years ended September 30, 2012 and 2011, respectively. Future minimum lease payments under noncancelable operating leases as of September 30, 2012 are as follows:

	(In Thousands)
2013	$ 11,361
2014	10,993
2015	10,257
2016	5,202
2017	406
Thereafter	-
Total minimum lease payments	$ 38,219

14. Subsequent Events

Management has considered the impact of subsequent events through December 12, 2012.

Pending Acquisition

On April 17, 2012 the City of Westfield, Indiana (City) extended a Request for Proposal for the purchase of the City's water and wastewater utilities. Citizens Energy Group (CEG) responded on May 25, 2012 with a proposal to purchase the assets of the utilities through one or more acquisition entities that would be formed, each as a wholly-owned subsidiary of Citizens Energy Services Company, LLC (CESCO) and therefore an affiliate of Citizens Gas of Westfield. On November 5, 2012, the Westfield City Council voted to approve and authorize the sale of the utility assets in a transaction consistent with CEG's response to the RFP. On November 16, 2012, Citizens Water of Westfield, LLC and the City entered into an asset purchase agreement for the sale of the City's water utility assets to Citizens Water of Westfield, a wholly-owned subsidiary of CESCO. That same day, Citizens Wastewater of Westfield, LLC, also a wholly-owned subsidiary of CESCO, and the City entered into an asset purchase agreement for the sale of the City's wastewater utility assets to Citizens Water of Westfield.

The aggregate purchase price under the agreements is $91 million for the purchase of both the water utility assets and the wastewater utility assets, subject to the terms and conditions, including adjustments to the purchase prices, set forth in the agreements. Financing options for the acquisition are currently under review by management. The acquisitions are subject to the approval of the Indiana Utility Regulatory Commission. On November 20, 2012, the Citizens Water of Westfield, LLC, Citizens Wastewater of Westfield, LLC and the City filed a joint petition with the IURC seeking approval of the proposed acquisitions. CEG expects the IURC approval case may not be completed until the fourth quarter of fiscal year 2013. The closing is expected to occur shortly after IURC approval of the acquisitions.

Further adjustments to the terms of the transaction and the aggregate purchase price may be made as a result of final due diligence activity, changes in the list of excluded assets, any conditions required by the IURC and any capital asset additions, retirements and accumulated depreciation during the interim period between May 25, 2012 and the closing date.

Provisions have been included in the Purchase Agreements that protect Citizens Water of Westfield, LLC and Citizens Wastewater of Westfield, LLC from having to complete the transaction should materially unfavorable conditions be imposed as a result of regulatory or other outcomes.

Richmond Hill Incident

On November 10, 2012, a home in the Richmond Hill neighborhood of Indianapolis was destroyed by explosion and fire. The incident resulted in two fatalities as well as other substantial property damage. The cause of the incident is under investigation by various agencies, including the Indianapolis Fire Department, the Indianapolis Metropolitan Police Department and the Marion County Prosecutor's Office. CEG is cooperating in this joint investigation. CEG and other governmental entities have received a tort claim notice from homeowners allegedly affected by the incident. While we cannot predict the potential for future litigation or the outcome of any such litigation related to this incident, CEG has found no evidence of leaks of its gas pipelines serving the home or neighborhood affected by the explosion.

Independent Auditors' Report

To the Boards of Directors for 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, 2012 and 2011, 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, 2012 and 2011, 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
December 12, 2012

Report of Management

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

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

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

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

John R. Brehm
Senior Vice President & Chief Financial Officer

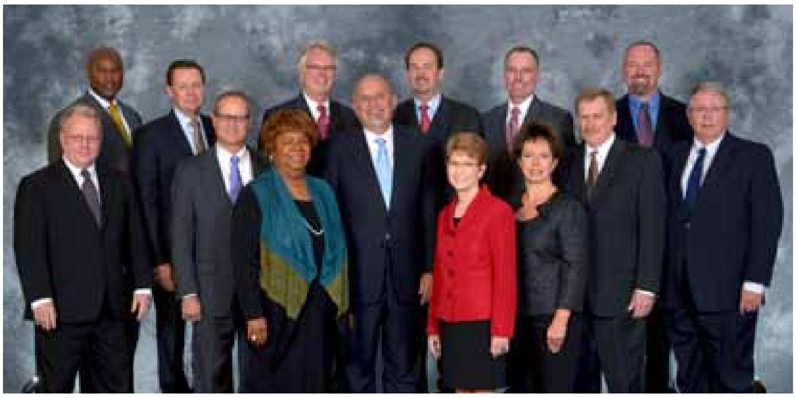
Board of Trustees - Board of Directors - Executive Management

Board of Trustees:

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

Board of Directors:

(Left to Right:) ***Dan Appel****, President, Gregory & Appel Insurance;* ***Anne Nobles*** *– Retired Chief Ethics & Compliance Officer, Eli Lilly & Company;* ***Christia Hicks****, Vice President Human Resources at Wishard Hospital Services;* ***James McClelland****, President, Goodwill Industries of Central Indiana, Inc.;* ***Moira Carlstedt****, President, Indianapolis Neighborhood Housing Partnership;* ***Phillip Terry****, Chief Executive Officer, Monarch Beverage Co., Inc.;* ***Board President Martha Lamkin****, Retired President & CEO, Lumina Foundation for Education;* ***Anita Harden****, President, Interim Executives LLC;* ***Board Treasurer Jeffrey Good****, Managing Director, Milestone Advisors, LLC.*



Officers:

(Left to Right:) ***Chris Braun****, Vice President, Energy Operations;* ***Jeffrey Harrison****, Senior Vice President, Engineering and Sustainability;* ***John Brehm****, Senior Vice President, Chief Financial Officer;* ***John Whitaker****, Senior Vice President, Chief Legal and Compliance Officer;* ***Yvonne Perkins****, Vice President, Corporate Communications and Chief Diversity Officer;* ***Robert Hummel****, Vice President, Human Resources;* ***Carey Lykins****, President and Chief Executive Officer;* ***Lindsay Lindgren****, Vice President, Water Operations;* ***Jean Richcreek****, Senior Vice President, Chief Administrative Officer;* ***Aaron Johnson****, Vice President, Corporate Development;* ***LaTona Prentice****, Vice President, Regulatory Affairs;* ***John Lucas****, Vice President, Information Technology;* ***Michael Strohl****, Senior Vice President, Customer Relationships and Corporate Affairs;* ***Bill Tracy****, Senior Vice President, Chief Operations Officer; and (Not pictured)* ***Blaire Dougherty****, Vice President, Controller.*

Executive Support Team:

(Left to Right:) ***Barb Smith****, Director Board Support;* ***Kristi Kuhn****, Director Internal Audit;* ***Curtis Popp****, Vice President, Engineering and Shared Field Services ;* ***Jodi Underwood****, Vice President, Human Resources;* ***Jeff Ford****, Director, Supply Chain;* ***Ann McIver****, Director, Environmental Stewardship.*

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

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

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