CITIZENS ENERGY GROUP
MANAGEMENT DISCUSSION & FINANCIAL REPORT 2013

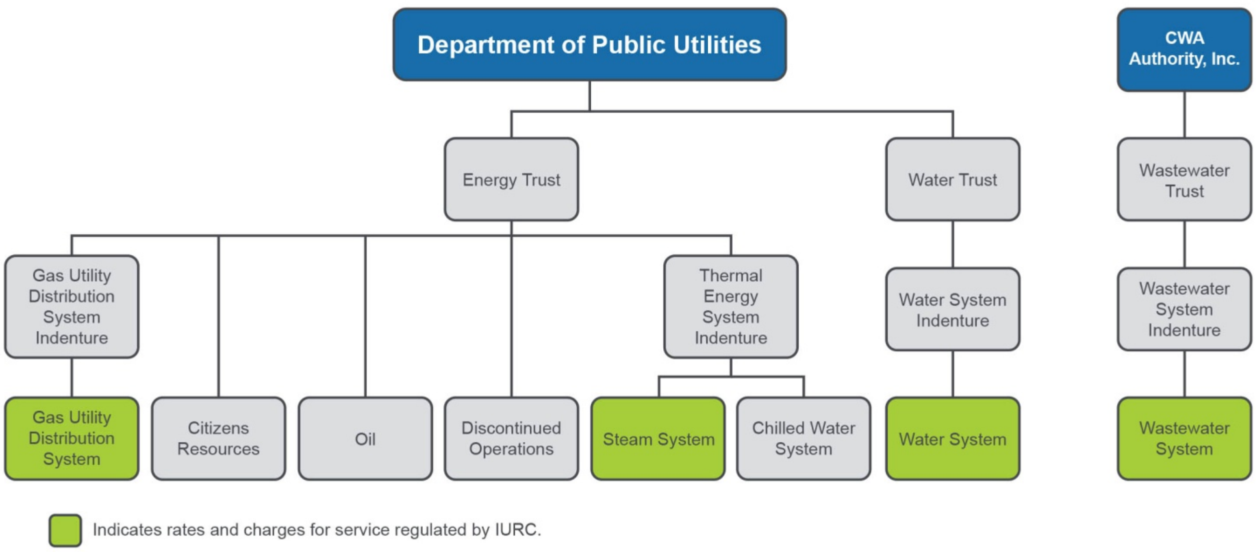
MANAGEMENT DISCUSSION & ANALYSIS

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.

Organization Structure

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



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

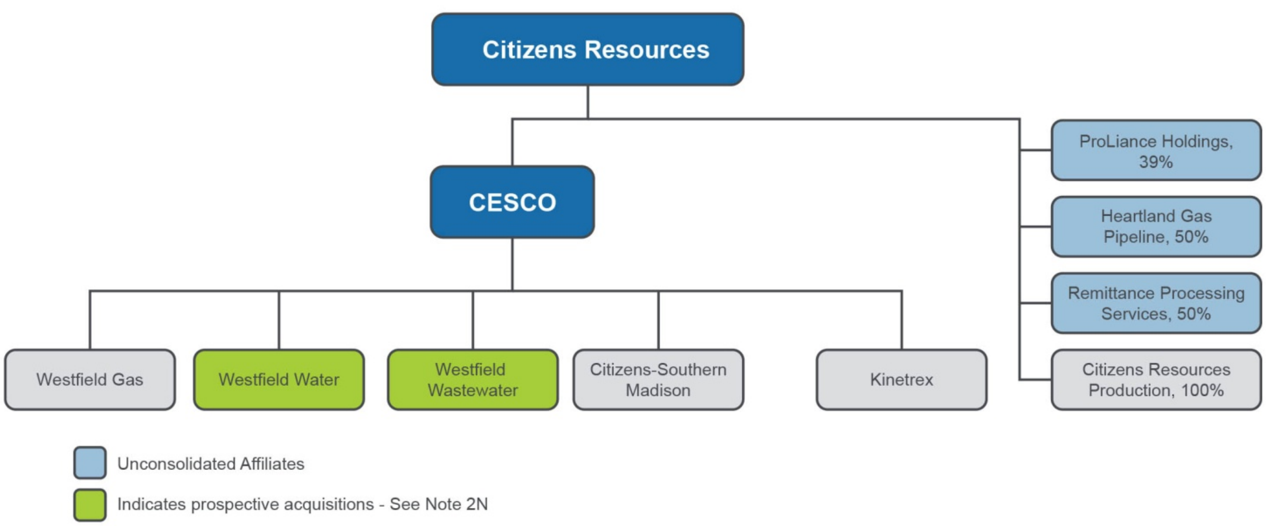
The Gas Utility Distribution System, the Thermal Energy System, Citizens Resources and certain other properties are subject to the Energy Trust. The Water System is subject to a separate public charitable trust (the Water Trust) that operates in substantially the same manner as the Energy Trust.

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

Separate indentures exist to issue debt obligations for the Gas Utility Distribution System, the Thermal Energy System, the Water System and the Wastewater System. Each indenture captures only the revenues from the respective System, pays the operating expenses of that System and then debt service on revenue bonds of that System. This structure is designed to achieve the desired separation of each System from other Systems or business segments owned or operated by Citizens and CWA.

In addition as described above, a public charitable trust for the Gas Utility Distribution System, the Thermal Energy System and Citizens Resources (the Energy Trust) exists separately from the public charitable trust for the Water System (the Water Trust) and the separate public charitable trust for the Wastewater System (the Wastewater Trust). Thus, there are three separate public charitable trusts, each with a governmental entity serving as the trustee (the Energy Trust and the Water Trust assets being owned by the Department and the Wastewater Trust assets being owned by CWA). These separate trusts further insulate one trust from liability for obligations of another trust, as basic trust law would provide that two separate trusts do not become jointly liable solely because the same entity is the trustee of both.

The result of the foregoing is that Citizens and CWA have five cash flow sources in which debt is isolated: (1) the Gas Utility Distribution System and the Gas Utility System;[1] (2) the Thermal Energy System; (3) the Water System; (4) the Wastewater System; (collectively, the four Systems) and (5) Citizens Resources. The cash flow for the four Systems is governed by the respective indentures for each System, which restricts the use of income and revenues of a respective System to the payment of operating expenses and debt service of the respective System before allowing any other use of funds by the System. The fifth source, Citizens Resources is a separate corporation whose stock is owned by the Department in its capacity as trustee of the Energy Trust. The preservation of the corporate organization form of Citizens Resources and its ability to operate for-profit businesses in furtherance of the Energy Trust purposes was specifically authorized by the Act. The assets, liabilities and operations of Citizens Resources are by design isolated in Citizens Resources, as a subsidiary corporation to Citizens. Further, each of the subsidiaries and affiliates of Citizens Resources is a limited liability company or corporation in which the losses of that entity are limited to that entity and will not be absorbed by Citizens Resources, absent an express guaranty. Those structures are the primary protection of Citizens' cash flow from any financial losses in Citizens Resources or its subsidiaries and affiliates. Profits of Citizens Resources may roll up to Citizens through dividends declared by the board of Citizens Resources, but losses of Citizens Resources are isolated in Citizens Resources (or in its subsidiaries and affiliates) and may not be imposed as a burden on the cash flow available in any System. See below for a diagram of Citizens Resources' organizational structure.



Rates and charges for service of Westfield Gas, Westfield Water and Westfield Wastewater are regulated by the IURC.

[1] The 1986 Gas Utility System (GUS) bonds are debt of the Gas Utility Distribution System (GUDS). Debt service on the GUS bonds is included in the revenue requirements for determining the rates and charges of the GUDS by the IURC. The GUS Indenture is not used for issuance of new debt. The bonds issued under the GUS Indenture are senior to the bonds issued under the GUDS Indenture. Bondholder security for the GUS bonds includes the net revenues after payment of operating expenses of the GUDS, Oil and Discontinued Operations as well as any dividends paid by Citizens Resources for so long as bonds are outstanding under that Indenture. However, as explained below the corporate structure of Citizens Resources prevents any losses of Citizens Resources and its subsidiaries and affiliates from passing up to the GUS. The final principal payment on the 1986 GUS bonds will occur in 2018 at which point no Indenture of the four Systems will include Oil, Discontinued Operations or Citizens Resources.

See Note 5 of the combined financial statements for more detailed information regarding the investment in unconsolidated affiliates of Resources. See Note 3 of the combined financial statements for more detailed information regarding the acquisition of Citizens Southern Madison. See below and Note 2N of the combined financial statements for more detailed information regarding the formation of Kinetrex and the pending acquisitions of Westfield Water and Westfield Wastewater.

See Notes 6 and 7 of the combined financial statements for more detailed information regarding the debt outstanding of Citizens, CWA and Kinetrex. See Note 10 of the combined financial statements for a presentation of the Statements of Operation and Statements of Financial Position by business segment.

FINANCIAL RESULTS

Combined Results of Operations

Citizens and CWA reported a combined net loss of $81.3 million for the twelve months ended September 30, 2013 as compared to net loss of $11.8 million in 2012. The $69.5 million increase in net loss is summarized as follows:

(in Millions)	**2013**	2012	Change
Operating Revenues	**$ 711.4**	$ 696.4	$ 15.0
Operating Expenses:			
Cost of Goods Sold	**187.8**	169.9	17.9
Other Operating Expenses	**436.9**	410.6	26.3
Total Operating Expenses	**624.7**	580.5	44.2
Total Operating Income	**86.7**	115.9	(29.2)
Other Income (Expense), Net	**2.2**	(1.1)	3.3
Equity in Loss of Affiliates	**(38.3)**	(4.9)	(33.4)
Interest Charges	**120.4**	115.3	5.1
Loss from Continuing Operations	**(69.8)**	(5.4)	(64.4)
Loss from Discontinued Operations	**(11.5)**	(6.4)	(5.1)
Net Loss	**$ (81.3)**	$ (11.8)	$ (69.5)

For a more detailed understanding of these summarized results, see the following discussion.

Operating Margin

Combined operating margin decreased $2.9 million to $523.6 million for 2013 from $526.5 million in the prior year as summarized in the table below (in thousands):

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Eliminations	Total
2013										
Operating revenues	**$279,040**	**$163,462**	**$156,164**	**$66,959**	**$41,911**	**$6,142**	**$ 4,983**	**$ -**	**$ (7,211)**	**$711,450**
Cost of goods sold	**141,109**	**-**	**-**	**37,123**	**13,075**	**-**	**2,406**	**-**	**(5,880)**	**187,833**
Operating margin	**137,931**	**163,462**	**156,164**	**29,836**	**28,836**	**6,142**	**2,577**	**-**	**(1,331)**	**523,617**
2012										
Operating revenues	$255,065	$170,856	$156,516	$64,303	$39,645	$6,168	$ 3,866	$ -	$ -	$696,419
Cost of goods sold	119,271	-	-	35,896	13,124	-	1,582	-	-	169,873
Operating margin	135,794	170,856	156,516	28,407	26,521	6,168	2,284	-	-	526,546
Change in Operating Margin	$ 2,137	$ (7,394)	$ (352)	$ 1,429	$ 2,315	$ (26)	$ 293	$ -	$ (1,331)	$ (2,929)

Citizens Gas – increase of $2.1 million. Total operating revenue for Citizens Gas increased to $279.0 million for the twelve months ended September 30, 2013 versus $255.1 million in 2012 on volume of gas sold and transported of 47.0 million dekatherms for the current year period versus 39.6 million dekatherms in 2012. Volumes of gas sold were 19% higher primarily due to the current period being 30% colder than the same period last year. Total gas costs for Citizens Gas increased to $141.1 million for the twelve months ended September 30, 2013 versus $119.3 million during the same period last year. This increase was volume related, as the weighted average cost of gas sold decreased 4 percent, from $4.95 per dekatherm for the prior year period to $4.74 for the current year period.

Water – decrease of $7.4 million. Total operating revenue for the Water business segment decreased to $163.5 million for the twelve months ended September 30, 2013 versus $170.9 million during the same period last year principally due to lower demand resulting from milder temperatures and higher rainfall in 2013 compared to 2012. Total water supplied was 45.1 billion gallons during 2013 versus 47.9 billion during 2012.

Wastewater – decrease of $0.3 million. Total operating revenue for the Wastewater business segment decreased to $156.2 million for the twelve months ended September 30, 2013 versus $156.5 million during the same period last year. Volume treated decreased to 34.6 billion gallons in 2013 versus 38.5 billion gallons in 2012, due in part to certain key customers conserving usage as well as the weather-related impacts described in the Water category above. Revenues for 2013 include a 10.75% rate increase.

Steam – increase of $1.4 million. Total operating revenue for the Steam business segment increased to $67.0 million for the twelve months ended September 30, 2013 versus $64.3 million during the same period last year, on volume sales of 64.3 million therms for the current year period versus 61.4 million therms for the prior year period. The revenue increase was driven by the following: $1.2 million attributable to 30% colder weather; $0.8 million attributable to customer growth primarily associated with a newly constructed hospital; and $0.6 million due to higher fuel cost recovery revenue. Total cost of goods sold increased by $1.2 million which was volume driven.

Chilled Water – increase of $2.3 million. Total operating revenue for the Chilled Water business segment was $41.9 million for the twelve months ended September 30, 2013, and $39.6 million during the same period last year, on volume sales of 167.9 million ton hours for the current year period versus 170.1 million ton hours for the prior year period. The volume decrease of 10.8 million ton hours or $2.0 million was primarily due to cooler weather than prior period and customer conservation. This was offset by new growth of 8.6 million ton hours or revenues of $2.5 million; a non-recurring customer payment of $1.4 million; and an annual price increase of $0.4 million.

Oil – decrease of $0.1 million. Total operating revenue for the Oil business segment was $6.1 million for the twelve months ended September 30, 2013 versus $6.2 million during the same period last year, on volume sales of 80 thousand barrels of oil for the twelve months ended September 30, 2013 versus 82 thousand barrels of oil for the same period last year. Revenue averaged $77 per barrel for the current period versus $75 per barrel for the same period last year.

Resources – increase of $0.3 million. Total operating margin for Resources increased to $2.6 million for the twelve months ended September 30, 2013 versus $2.3 million during the same period in the prior year. This is due to the operations of Westfield Gas, Citizens Resources Production, Citizens Southern Madison, and Kinetrex.

Other Operating Expenses

Other operating expenses increased $26.3 million to $436.9 million for the twelve months ended September 30, 2013, from $410.6 million during 2012 due to the following:

Operations and Maintenance – increase of $19.1 million. Operations and Maintenance by business segment for the twelve months ended September 30, 2013 versus 2012 is as follows (in thousands):

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Eliminations	Total
2013	**$ 81,802**	**$ 80,868**	**$ 64,861**	**$ 24,195**	**$ 8,929**	**$ 2,211**	**$ 6,743**	**$ (98)**	**$ (1,304)**	**$268,207**
2012	73,333	76,554	60,969	23,532	8,420	1,757	4,680	(110)	-	249,135
Change	$ 8,469	$ 4,314	$ 3,892	$ 663	$ 509	$ 454	$ 2,063	$ 12	$ (1,304)	$ 19,072

Shared services costs increased in total by $12.9 million from 2012 to 2013 due primarily to higher labor and related costs, information systems expenses, customer services and other costs associated with expanded operations and the conversion to combined billing for Gas, Steam, Water, and Wastewater customers. These costs have been allocated to the appropriate business units and are reflected in the explanations that follow.

The Citizens Gas increase is primarily due to increases in shared services costs of $5.1 million, labor and related costs of $2.5 million, uncollectible expense of $0.5 million and miscellaneous costs of $0.4 million. The Water net increase is due to increases in shared services costs of $3.1 million, write off of notes receivable of $1.4 million, repairs and maintenance costs of $1.3 million, and miscellaneous expenses of $0.6 million, partially offset by lower chemicals costs of $1.1 million, decreased electric power expenses of $0.8 million, and reduced postage costs of $0.6 million resulting from combined billing. The Wastewater increase is primarily due to increases in shared services costs of $1.2 million, uncollectible expenses of $1.2 million, fees and permitting expenses of $0.7 million, contract operator costs of $0.4 million, and miscellaneous operational costs of $1.6 million, partially offset by reduced postage costs of $0.7 million resulting from combined billing, and decreased natural gas fuel costs of $0.5 million. The Steam increase is due to increases in shared services costs of $0.9 million and miscellaneous expenses of $0.3 million, partially offset by reduced labor related expenses of $0.5 million. The Chilled Water increase is primarily due to increased shared services costs. The Resources increase relates to higher acquisition and business development costs of $1.7 million, plus higher shared services costs of $0.4 million.

Depreciation and Amortization – increase of $7.2 million. Depreciation and Amortization by business segment for the twelve months ended September 30, 2013 versus 2012 is as follows (in thousands):

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Eliminations	Total
2013	**$ 22,952**	**$ 37,516**	**$ 56,043**	**$ 4,391**	**$ 6,122**	**$ 233**	**$ 547**	**$ -**	**$ -**	**$127,804**
2012	21,286	36,444	52,019	4,201	5,884	333	443	-	-	120,610
Change	$ 1,666	$ 1,072	$ 4,024	$ 190	$ 238	$ (100)	$ 104	$ -	$ -	$ 7,194

The Depreciation and Amortization increase is primarily due to a general increase in depreciable assets.

Taxes – no change. Taxes by business segment for the twelve months ended September 30, 2013 versus 2012 are as follows (in thousands):

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Eliminations	Total
2013	**$ 8,735**	**$ 12,973**	**$ 14,875**	**$ 1,373**	**$ 2,037**	**$ 143**	**$ 376**	**$ 375**	**$ -**	**$ 40,887**
2012	8,729	12,706	14,699	1,298	1,874	105	1,289	237	-	40,937
Change	$ 6	$ 267	$ 176	$ 75	$ 163	$ 38	$ (913)	$ 138	$ -	$ (50)

The net decrease was driven by the conversion of Westfield Gas (Resources) to a non-taxable entity at the end of 2012. This was offset by increased property taxes in all other business units.

Other Income (Expense), Net

Other Income (Expense), Net – increase of $3.3 million. Other Income (Expense), Net by business segment for the twelve months ended September 30, 2013 versus 2012 is as follows (in thousands):

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Eliminations	Total
2013	**$ (2,298)**	**$ 8,187**	**$ 315**	**$ -**	**$ 20**	**$ -**	**$ 1,354**	**$ (5,365)**	**$ -**	**$ 2,213**
2012	116	2,862	169	1	8	-	51	(4,321)	-	(1,114)
Change	$ (2,414)	$ 5,325	$ 146	$ (1)	$ 12	$ -	$ 1,303	$ (1,044)	$ -	$ 3,327

The decrease in Gas of $2.4 million is due to the sale of LNG inventory to Kinetrex at fair market value. The increase in Water is primarily due to the receipt of $3.4 million amounting to Citizens' share of remaining proceeds upon expiration of an escrow account established attendant to the acquisition transaction, and the receipt of $2.8 million for a class action lawsuit settlement relating to the chemical atrazine. The increase in Resources is due to miscellaneous income. The decrease in Other is due to increased community investment and brand advertising expenses of $1.2 million, coupled with lower interest income.

Equity in Loss of Affiliates

Equity in Loss of Affiliates – increase of $33.4 million. Equity in Loss of Affiliates increased $33.4 million to a $38.3 million loss for the twelve months ended September 30, 2013 from a $4.9 million loss during 2012. This was driven by losses recognized in June, 2013 as a result of the sale of certain net assets, along with the long term pipeline and storage commitments of ProLiance Energy, LLC (PLE), by its parent, ProLiance. As a result of this transaction, ProLiance recorded a loss of $64.1 million. Resources' share of the net loss was $25.0 million, consistent with its ownership share. The fiscal year to date ProLiance net loss to CEG through the date of the sale in June was $38.4 million (see Note 5).

Interest Charges

Interest Charges – increase of $5.1 million. Interest Expenses by business segment for the twelve months ended September 30, 2013 versus 2012 are as follows (in thousands):

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Eliminations	Total
2013	**$ 16,814**	**$ 49,040**	**$ 49,152**	**$ 2,960**	**$ 2,614**	**$ -**	**$ -**	**$ (203)**	**$ -**	**$120,377**
2012	17,213	50,488	41,949	3,034	2,740	-	-	(131)	-	115,293
Change	$ (399)	$ (1,448)	$ 7,203	$ (74)	$ (126)	$ -	$ -	$ (72)	$ -	$ 5,084

The decrease in interest charges of $1.4 million for Water is primarily related to a $1.1 million increase in the amount of capitalized interest on construction projects and lower interest on outstanding debt of $0.5 million due to a decrease in the total bond principal outstanding. The increase versus the prior year for Wastewater is due to an increase in interest expense on long-term debt of $7.4 million primarily driven by a $192.1 million 2012A bond issuance which closed in September 2012.

Discontinued Operations

Loss from Discontinued Operations (Manufacturing Division) – increase of $5.1 million. Loss from Discontinued Operations increased $5.1 million to $11.5 million for the twelve months ended September 30, 2013 from $6.4 million during 2012. The increase is primarily due to an asset retirement obligation re-measurement of $5.6 million, partially offset by lower retiree benefit and administrative costs of $0.5 million compared to the prior year (see Note 11).

LIQUIDITY AND CAPITAL RESOURCES

Debt and Liquidity

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

Capital Spending

For the twelve months ended September 30, 2013, capital expenditures, on an accrual basis, decreased to $288.2 million from $295.4 million during the same period last year. This decrease of $7.2 million is summarized as follows (in thousands):

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Total
2013	**$ 20,337**	**$ 58,916**	**$ 170,032**	**$ 9,459**	**$ 2,261**	**$ -**	**$ 796**	**$ 26,442**	**$ 288,243**
2012	21,960	37,756	190,235	7,936	10,029	-	181	27,308	295,405
Change	$ (1,623)	$ 21,160	$ (20,203)	$ 1,523	$ (7,768)	$ -	$ 615	$ (866)	$ (7,162)

Citizens' and CWA's projected capital spending requirement for continuing operations of $346.1 million for 2014 is summarized as follows (in thousands):

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Total
2014 Projection	$ 20,764	$ 54,004	$ 202,123	$ 8,139	$ 3,930	$ 300	$ 21,843	$ 35,022	$ 346,125

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 $54.4 million at September 30, 2013. Citizens Gas expects to meet its capital spending requirements in 2014 through cash flows from operations 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, and various distribution system and treatment plant upgrades. Water had cash and cash equivalents of $22.0 million at September 30, 2013, including $7.4 million in the construction fund. Water expects to meet its capital spending requirements in 2014 through cash flows from operations, new issuances of long-term debt, and use of its line of credit (see Note 7 of the combined financial statements). Citizens filed a petition with the IURC in February, 2013 for a general rate increase for Water. Citizens has requested a revenue increase of $24.1 million. The OUCC proposed an increase of $4.6 million. Certain large industrial customers who intervened in this case as a group proposed an increase of $11.3 million. The utility is currently awaiting an order from the IURC. See Note 2N – Water of the combined financial statements for additional information regarding the proposed rate increase.

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 $59.5 million at September 30, 2013, including $24.3 million in the construction fund. Wastewater expects to meet its capital spending requirements in 2014 through a combination of cash flows from operations, 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 increased 10.75 percent on January 1, 2013 (see Note 2N – Wastewater of the combined financial statements). CWA filed a petition with the IURC in February, 2013 for a general rate increase for Wastewater. CWA proposed a two-step rate increase with the step one amount of $44.3 million effective upon receipt of the rate order and the step two amount of $12.3 million effective on October 1, 2014. On October 11, 2013 CWA and the OUCC filed a settlement agreement with the IURC providing for a step one amount of $39.1 million effective upon receipt of the rate order and the step two amount of $12.3 million effective on October 1, 2014. The only other party to the case, an ad hoc group of large industrial customers, did not join the settlement entered into between CWA and the OUCC. The Industrial Group proposed a $15.3 million reduction to CWA's original requested rate increase amount. The utility is currently awaiting an order from the IURC. See Note 2N – Wastewater of the combined financial statements for additional information regarding the proposed rate increase.

Citizens Thermal's Steam business segment continues to invest in distribution assets and production equipment. Additionally, Steam is converting four coal burning boilers to natural gas. Chilled Water capital spending plans include investments to increase production capacity. At September 30, 2013, cash and cash equivalents of Steam and Chilled Water amounted to $8.9 million and $2.9 million, respectively. Steam expects to meet its capital spending requirements in 2014 through a combination of cash flows from operations, its line of credit (see Note 7 of the combined financial statements), and use of its existing cash balance that resulted in part from the Series 2013A and B bonds issued in August 2013 (see Note 6 of the combined financial statements) while Chilled Water expects to meet its 2014 capital spending requirements through cash flows from operations. Citizens filed a petition with the IURC in June 2013 for a general rate increase for Steam. Citizens has requested a revenue increase of $7.9 million. The OUCC proposed an increase of $7.4 million. Three of the steam system's larger customers, who intervened in the case as a group, proposed an increase of $3.7 million. See Note 2N – Citizens Thermal Steam of the combined financial statements for additional information regarding the proposed rate increase.

Resources' capital spending projection for 2014 includes activities at Kinetrex (see Note 7 of the combined financial statements for additional information regarding Kinetrex' construction note), Citizens Resources Production, Westfield Gas, and Citizens Southern Madison. The projection also includes 2014 capital spending activities for Westfield Water and Westfield Wastewater, the acquisition of which is pending (see Note 2N of the combined financial statements – Pending Acqusition of Westfield Water and Wastewater).

DERIVATIVES AND HEDGING

CEG has entered into certain derivative and hedging transactions in 2013 and 2012. These transactions 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, 2013	2012
Operating Revenues		$ 711,450	$ 696,419
Operating Expenses:	Cost of goods sold	187,833	169,873
	Operations and maintenance	268,207	249,135
	Depreciation and amortization	127,804	120,610
	Taxes	40,887	40,937
	Total operating expenses	624,731	580,555
Total Operating Income		86,719	115,864
Other Income (Expense)-Net:	Interest income	2,392	2,919
	Other	(179)	(4,033)
	Total other income (expense)	2,213	(1,114)
Income Before Equity in Loss of Affiliates and Interest Charges		88,932	114,750
Equity in Loss of Affiliates		(38,323)	(4,898)
Interest Charges:	Interest on long-term debt	131,750	123,889
	Other interest including net premium (discount) amortization	(11,373)	(8,596)
	Total interest charges	120,377	115,293
Loss from Continuing Operations		(69,768)	(5,441)
Loss from Discontinued Operations		(11,501)	(6,369)
Net Loss		$ (81,269)	$ (11,810)

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

Combined Statements of Comprehensive Loss

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

	Fiscal Year Ended September 30, 2013		2012	
Net Loss	**$**	**(81,269)**	**$**	**(11,810)**
Other comprehensive income (loss):				
Comprehensive income (loss) of unconsolidated investment …..		6,003		(397)
Retirement benefit liability changes ……………………………….		71,020		(19,775)
Other comprehensive income (loss) ……………………………………………………		77,023		(20,172)
Total Comprehensive Loss	**$**	**(4,246)**	**$**	**(31,982)**

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, 2013	At September 30, 2012
Property, Plant and Equipment:	Utility plant, at original cost	$ 4,853,940	$ 4,683,036
	Accumulated depreciation	2,717,910	2,639,364
		2,136,030	2,043,672
	Non-utility plant, at original cost	83,519	74,457
	Accumulated depreciation	25,422	22,870
		58,097	51,587
	Construction work in progress	483,057	411,067
	Property held for future use	1,443	1,442
		2,678,627	2,507,768
Intangibles:	Thermal customer contracts, net	92,577	96,799
Investments:	Bond restricted funds	203,787	192,294
	Investment in affiliates	18,260	51,338
	Other	39,737	39,774
		261,784	283,406
Current Assets:	Cash and cash equivalents	194,825	393,989
	Short-term investments	1,001	500
	Accounts receivable, less allowance for doubtful accounts of $4,085 and $2,049, respectively	75,989	55,876
	Accrued utility revenue	16,072	26,071
	Natural gas in storage	56,667	56,766
	Materials and supplies	13,065	13,751
	Recoverable gas and fuel costs	7,923	11,107
	Prepayments and deposits	4,553	5,111
	Current assets held for sale and discontinued operations	1,328	932
		371,423	564,103
Deferred Charges and Other Non-Current Assets:	Bond issuance cost, net	26,438	28,774
	Other deferred charges	25,262	33,594
	Non-current assets held for sale and discontinued operations	895	1,094
		52,595	63,462
	Total Assets	$ 3,457,006	$ 3,515,538
	Capitalization and Liabilities		
Capitalization and Non-Current Liabilities:	Retained earnings	$ 190,682	$ 272,812
	Accumulated other comprehensive loss	(83,108)	(160,131)
	Long-term debt (excluding current maturities)	2,669,904	2,679,794
	Retirement benefits	138,640	195,160
	Contributions in aid of construction	89,138	81,764
	Other long-term liabilities	23,631	21,828
	Non-current liabilities directly related to assets held for sale and discontinued operations	51,411	48,349
		3,080,298	3,139,576
Current Liabilities:	Current maturities of long-term debt	54,000	73,410
	Short-term borrowings	95,285	64,000
	Accounts payable and accrued expenses	166,421	180,511
	Accrued taxes	45,679	43,854
	Customer deposits and advance payments	13,971	12,308
	Customer benefits	461	439
	Other	213	459
	Current liabilities directly related to assets held for sale and discontinued operations	678	981
		376,708	375,962
Commitments and Contingencies (Note 13):			
	Total Capitalization and Liabilities	$ 3,457,006	$ 3,515,538

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, 2013	2012
Operating Activities:		
Net loss	$ (81,269)	$ (11,810)
Depreciation and amortization	125,843	120,365
Capitalized interest	(10,525)	(9,373)
Amortization of bond discount	1,223	1,207
Equity in loss of affiliates, net of distributions	39,081	5,404
Allowance for doubtful accounts	6,819	7,434
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	(15,522)	(6,235)
Natural gas in storage	99	16,617
Recoverable/refundable gas and fuel costs	2,892	(8,883)
Prepayments and deposits	558	963
Other current assets	686	402
Accounts payable and accrued expenses	(2,733)	(21,070)
Retirement benefits	14,499	27,328
Other long-term liabilities	1,802	(1,314)
Net change in deferred charges	8,218	(18,899)
Other operating activities	(246)	251
Net cash provided (used) by operating activities of discontinued operations	2,562	(2,128)
Net cash provided by operating activities	93,987	100,259
Investing Activities:		
Construction expenditures	(285,672)	(263,289)
Purchase of investment securities	(205,043)	(177,667)
Sale and maturity of investment securities	193,049	144,049
Acquisition of water utility, net of cash acquired	(3,893)	-
Other investing activities	(4,646)	(5,006)
Net cash used by investing activities	(306,205)	(301,913)
Financing Activities:		
Proceeds from bank line of credit	65,435	23,000
Repayment of bank line of credit	(34,150)	(15,000)
Proceeds from long-term debt	49,114	228,568
Principal payments of long-term debt and bond refunding	(130,078)	(37,970)
Proceeds from bond refunding	56,917	-
Bond issuance costs	(718)	(1,652)
Customer benefits arising from nonregulated operations distributable to gas customers	(839)	(676)
Contributions in aid of construction	7,373	8,278
Net cash provided by financing activities	13,054	204,548
Net change in cash and cash equivalents	(199,164)	2,894
Cash and cash equivalents at beginning of fiscal year	393,989	391,095
Cash and cash equivalents at September 30 of fiscal year	$ 194,825	$ 393,989

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

Combined Statements of Changes in Equity

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

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
September 30, 2011	$ 284,622	$ (139,959)	$ 144,663
Net loss	(11,810)		(11,810)
Other comprehensive items:			
Comprehensive loss of unconsolidated investment		(397)	
Retirement benefit liability changes		(19,775)	(20,172)
September 30, 2012	$ 272,812	$ (160,131)	$ 112,681
Net loss	$ (81,269)		**$** (81,269)
Other comprehensive items:			
Comprehensive income of unconsolidated investment		$ 6,003	
Retirement benefit liability changes		71,020	77,023
Customer benefit distributions	(861)		(861)
September 30, 2013	**$ 190,682**	**$ (83,108)**	**$ 107,574**

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

NOTES TO COMBINED FINANCIAL STATEMENTS

Citizens Energy Group and Subsidiary and CWA Authority, Inc.

1. NATURE OF OPERATIONS AND PRESENTATION:

A. Nature of Operations

Operations of Citizens Energy Group and Subsidiary (Citizens) 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, including ProLiance Holdings, LLC (ProLiance) as well as several wholly owned subsidiaries, the most significant of which are: Citizens Energy Services Corporation LLC (CESCO) which serves as a holding company for several LLC subsidiaries; Westfield Gas Corporation (Westfield Gas), a subsidiary of CESCO, which is operated as a regulated natural gas distribution utility; and LNG Indy, LLC, d/b/a Kinetrex Energy, LLC (Kinetrex), a subsidiary of CESCO, which operates as a provider of liquefied natural gas (LNG) for use as transportation fuel. Operations of CWA Authority, Inc. (CWA) include activities for the Wastewater business segment. The rates and charges for gas, steam, water and wastewater services are regulated by the Indiana Utility Regulatory Commission (IURC).

B. Basis of Presentation

The accompanying financial statements reflect the combined operations of commonly controlled entities, including Citizens, CWA and certain non-profit instrumentalities. The accounting records conform to the accounting standards prescribed by the Federal Energy Regulatory Commission, National Association of Regulatory Utility Commissioners and accounting principles generally accepted in the United States of America (GAAP). The effects of all intercompany transactions have been eliminated. During 2013, Citizens and CWA began eliminating intercompany revenues and costs on the face of the combined statement of operations.

C. Reclassifications

Certain reclassifications have been made to the combined financial statements of the prior period to conform to the current period presentation.

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 purchase 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, and, for certain utility plant, capitalized interest. 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. Citizens and CWA utilize the composite method of depreciation. Accordingly, the original cost of depreciable property and equipment retired or replaced and the cost of removal, less salvage, are charged to accumulated depreciation.

Plant in service, at original cost, at September 30:

		(In Thousands) 2013		2012	Useful Lives
Utility:					
Distribution	**$**	**1,767,045**	$	1,718,957	15 – 65 years
Gas storage		**73,232**		85,347	33 – 60 years
Production		**49,796**		45,746	50 – 75 years
Transmission		**51,781**		42,825	22 – 60 years
Treatment		**1,366,181**		1,345,944	40 – 50 years
Collection		**1,120,696**		1,050,607	40 – 50 years
Pumping		**132,133**		132,102	40 – 50 years
Source of supply		**199,020**		196,772	40 – 50 years
General plant		**94,056**		64,736	5 – 30 years
	$	**4,853,940**	$	4,683,036	
Non-utility:					
Distribution	**$**	**33,631**	$	30,126	40 – 55 years
Production		**43,903**		43,693	5 – 40 years
Gas storage		**5,322**		-	33 – 60 years
General plant		**663**		638	5 – 25 years
	$	**83,519**	$	74,457	

Depreciation expense was $116.1 million and $107.8 million for the twelve months ending September 30, 2013 and September 30, 2012, respectively.

Interest capitalized represents the cost of borrowed funds used for construction purposes and is charged to major construction projects during the construction period with a corresponding credit to Other Interest Charges. The total amount of interest capitalized was $10.5 million and $9.4 million for the twelve months ended September 30, 2013 and September 30, 2012, respectively.

C. Revenue Recognition

Revenue is recorded when earned, either when the product is delivered or when services are performed. Citizens Gas, Water and Wastewater customer billings are rendered on a cycle basis on each working day throughout the month. Westfield Gas customer billings for all rate classes are billed near the end of the calendar month. The estimated revenue for gas, water delivered, and wastewater service since the last customer billing dates to month-end is accrued based on actual demand data for the calendar month. The accrual for unbilled revenues is reversed in the subsequent accounting period when meters are actually read and customers are billed. Meter readings are taken as of month-end for Steam and Chilled Water customers, with billings rendered as of month-end for all such customers.

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

Citizens and CWA monitor credit quality and associated risks of notes receivable on an individual basis based on criteria such as financial stability of the party, strength of Citizens' and CWA's contractual position, value and existence of collateral, and collection experience in conjunction with general economic and market conditions. The note receivable from Brown County was terminated during 2013. Citizens believes all remaining notes are fully recoverable. A note receivable was entered into between Resources and ProLiance in conjunction with ProLiance's sale of certain net assets and contracts in June 2013 (see Note 5). The note is to be paid back at the maturity date (June 24, 2018). Interest is earned on the note at the Prime rate on the unpaid loan balance beginning on August 1, 2013 until maturity. The note receivable relating to the City of Carmel was acquired as part of the water system acquisition on August 26, 2011. The original principal was $22.2 million and is to be paid back by December 30, 2025. The City of Carmel makes semi-annual payments on this note at an imputed interest rate of 4.88% annually. The following table presents Citizens' notes receivable, which are recorded in Other Investments on the statements of financial position, whose carrying value approximates fair value, as of September 30, 2013 and September 30, 2012 (in thousands):

	Notes Receivable at September 30, 2013		
Description	Unpaid Balance	Related Allowance	Receivable Net of Allowance
Note Receivable from City of Carmel	**$16,900**	**$ -**	**$16,900**
Note Receivable from ProLiance	**6,474**	**-**	**6,474**
	$23,374	**$ -**	**$23,374**

	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 the weighted average cost of gas. LNG in storage for Kinetrex is maintained at the lower of weighted average cost of gas or market.

F. Taxes

Citizens and CWA are generally subject to payroll, property (in the case of Citizens and its affiliates), payment in lieu of taxes (PILOT) (in the case of CWA), utility receipts (in the case of Citizens), and other miscellaneous taxes. In general, Citizens and CWA are exempt from federal, state and local income taxes as either political subdivisions of the State of Indiana or pursuant to Internal Revenue Code section 115 as applicable. As of and through September 30, 2012, the income of the Westfield Gas Corporation and its parent Citizens Energy Services Corporation (CESCO), a subsidiary of Resources, were subject to federal and state income taxes. Both entities were converted to limited liability companies at the beginning of fiscal year 2013, satisfying the requirements of Internal Revenue Code section 115 so that all income earned by the entities in fiscal year 2013 and thereafter are 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, Citizens includes these taxes received as a component of operating revenue, which totaled $6.9 million and $6.7 million in 2013 and 2012, 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 Citizens' 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, Citizens and CWA consider investments purchased with a maturity of three months or less to be cash equivalents. The carrying value equals fair value for these financial instruments. Included in cash and cash equivalents on the Combined Statements of Financial Position are money market funds of $88.4 million and $337.0 million at September 30, 2013 and 2012, respectively.

J. Supplemental Disclosures of Cash Flow Information

	(In Thousands)	
	2013	2012
Cash paid during the year for:		
Interest	$ **127,555**	$ 104,160
Non-cash investing activities were as follows:		
Construction work-in-progress accrued at year end	$ **28,663**	$ 48,426
Comprehensive gain (loss) on investment in affiliates	**(6,003)**	397
Total non-cash investing activities	$ **22,660**	$ 48,823

K. Fair Value Measurements

In accordance with Financial Accounting Standards Board (FASB) guidance related to fair value measurements and disclosures, Citizens' and CWA's financial assets and liabilities have been categorized, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below.

The following table presents the financial assets and liabilities measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2013 and 2012 (in thousands):

	2013 Fair Value Measurements Using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	**$ 88,351**	**$ -**	**$ -**
Bond restricted funds	**203,788**	**-**	**-**
Derivative Assets	**536**	**-**	**-**
Derivative Liabilities	**(153)**	**-**	**-**
Total financial assets measured at fair value	**$292,522**	**$ -**	**$ -**

	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	-	-
Derivative Assets	1,290	-	-
Derivative Liabilities	(447)	-	-
Total financial assets measured at fair value	$530,176	$ -	$ -

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, 2013 was $0.4 million. The fair value of derivatives at September 30, 2012 was $0.8. 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 2013.

Management has estimated the fair value of the outstanding debt securities based on the coupons of the outstanding bonds and the current market yields. These are level 2 fair value measurements. Management established the corresponding price to the call date as well as the price to maturity. The fair value was determined based on the lower of these two prices. Using this method, the estimated fair value of the debt is $2.773 billion and $3.044 billion at September 30, 2013 and 2012, versus carrying value of $2.723 billion and $2.753 billion at September 30, 2013 and 2012, respectively.

Held-to-maturity short-term investments are held at a carrying value of $1.0 million and $0.5 million as of September 30, 2013 and 2012, respectively, which approximated fair value.

L. Asset Impairment

Long-lived assets and certain amortizing intangible assets held and used by Citizens and CWA are reviewed for impairment using undiscounted cash flows, whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Measurement of an impairment loss is based on the discounted value cash flows related to these specific assets or asset group. No impairments were recorded in 2013 or 2012. See additional disclosure at Note 2M.

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. Original and gross carrying values (net of impairments) of intangible customer contracts were $129.7 million and $120.1 million and $129.7 million and $120.1 million as of September 30, 2013 and 2012, respectively.. Accumulated amortization for all intangible customer contracts was $27.5 million and $23.3 million at September 30, 2013 and 2012, respectively. Amortization expense of such assets was $4.2 million in 2013 and 2012, respectively. Estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows:

		(In Thousands)
2014	$	4,222
2015		4,222
2016		4,222
2017		4,222
2018		4,222

N. Regulatory Developments, Assets and Liabilities

N.1 Regulatory Developments

Citizens Gas

Citizens Gas' most recent rate order became effective on 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 (OUCC), 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. On April 10, 2013, the Commission issued an order authorizing the extension of certain energy efficiency programs and approving the continuation of Citizens Gas's decoupling mechanism through December 30, 2015. The Commission directed Citizens Gas and the OUCC to engage in discussions regarding appropriate caps on the amount of revenues that can be recovered through the decoupling mechanism and amounts that can be deferred for future recovery for revenues that exceed such caps. On June 10, 2013, Citizens Gas and the OUCC entered into an agreement on the cap and future revenue recovery issues for both Citizens Gas and Citizens Gas of Westfield. The notice of agreement was filed with the IURC on the same day. The agreement included capping margin differences at 4% (Citizens Gas) and 8% (Citizens Gas of Westfield) of adjusted order granted margin for eligible rate classes, beginning with the twelve month period ended December 31, 2013. The actual margin differences in excess of 4% (Citizens Gas) and 8% (Citizens Gas of Westfield) will be eligible for deferral for future recovery either in a future decoupling filing, still subject to the annual cap, or in a future rate case. The total amounts that may be deferred for recovery in future rate cases may not exceed $2.5 million and $1.0 million for Citizens Gas and Citizens Gas of Westfield, respectively.

On December 3, 2012, Citizens and Kinetrex filed a joint petition with the IURC seeking certain approvals in connection with the creation and proposed operations of Kinetrex, a transportation and industrial fueling business utilizing LNG to serve the needs of customers throughout the Midwest. Kinetrex will market and sell LNG as a competitive alternative to diesel fuel for use in heavy-duty vehicles or off road applications such as drilling rigs and rail applications. Citizens, Kinetrex and the OUCC entered into a settlement agreement that facilitated the proposed LNG initiative upon the IURC's approval. The settlement agreement was filed with the IURC on May 8, 2013, and a hearing on the settlement agreement was held May 22, 2013. The IURC issued an order on June 26, 2013 approving terms of the settlement agreement set forth regarding the operation of LNG Indy, its purchases of natural gas, provision of LNG to Citizens Gas for peaking and balancing purposes and reporting requirements. The IURC declined to regulate Kinetrex' rates and charges. On July 5, 2013, Kinetrex Energy began operations. On August 22, 2013, Citizens Gas transferred its decommissioned LNG South plant to Kinetrex at Citizens Gas net book value. An Asset Contribution Agreement was filed with the IURC on the same day. Kinetrex also purchased the LNG inventory in both the LNG North and LNG South plants during the fourth quarter of 2013 at fair market value from Citizens Gas (see Note 2E).

Westfield Gas

Westfield Gas' most recent rate order became effective March 15, 2010. On September 28, 2012, Westfield Gas filed a quarterly gas cost adjustment application with the IURC. In that proceeding, the OUCC recommended that Westfield Gas file a revision to its tariff to account for the federal and state income taxes Westfield Gas will no longer be required to pay as a result of its conversion to a limited liability company, which became effective September 30, 2012. Westfield Gas argued, among other things, the OUCC's recommendation ignored the one-time state and federal tax payments made by Westfield Gas to effect the conversion and that the recommendation runs counter to the IURC's policy against single issue ratemaking. The IURC established a subdocket to address the issue raised by the OUCC. On October 30, 2013, the IURC issued an order that closed the subdocket and ruled in favor of Westfield Gas, finding that the utility does not need to file a revision of its tariffed rates as a result of the LLC conversion.

Citizens Thermal Steam

Citizens Thermal Steam's most recent rate order became effective May 11, 2010. On June 3, 2013, Citizens filed a petition with the IURC for a general rate increase for Steam. The final requested amount of the rate increase was $7.9 million. The OUCC and other intervenors challenged the amount of the rate increase. A portion of the steam rate increase is to provide cost recovery for debt service and other costs incurred in connection with the conversion of the Perry K steam production plant from coal to clean burning natural gas which management believes will significantly improve the air quality in downtown Indianapolis and allow Citizens to meet the new federal air emissions standards for boilers. The conversion project is expected to be completed in 2015. The natural gas conversion plan was approved by the IURC on August 8, 2012 pursuant to a settlement agreement entered into by Citizens Thermal, the OUCC and certain large industrial customers. Hearings on the general rate case are scheduled for December 9 through December 12, 2013. An order in the case is not expected until the spring of 2014 (see Note 6 – Thermal).

Water

The existing rates of Water became effective August 26, 2011 pursuant to the IURC July 13, 2011 Order approving the water utility acquisition that authorized Citizens to adopt the rates and charges approved by the IURC for the water utility in effect at the time of closing the acquisition.

Citizens filed a petition with the IURC on February 21, 2013 for a general rate increase for Water. The final requested amount of the rate increase was $24.1 million. The OUCC and other intervenors challenged the amount of the rate increase. Hearings in the water rate case were held July 29 through August 14, 2013. Citizens filed its proposed order on September 18, 2013. The OUCC and intervenors filed their proposed orders on November 15, 2013. Citizens' reply brief was filed on December 6, 2013. An order in the case is not expected until early 2014.

Wastewater

The existing wastewater rates became effective August 26, 2011, pursuant to the IURC July 13, 2011 Order approving the wastewater utility acquisition that authorized CWA to adopt the rates and charges approved by the City-County Council of Indianapolis and Marion County in effect at the time of closing the acquisition which included rate increases of 10.75 percent on each of January 1, 2012 and 2013. 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.

CWA filed a petition with the IURC on February 21, 2013 for a general rate increase for Wastewater. CWA proposed a two-step rate increase with the step one amount of $44.3 million effective upon receipt of the rate order and the step two amount of $12.3 million effective on October 1, 2014. The OUCC and another intervenor challenged the amount of the rate increase. Hearings in the wastewater rate case were held in October and November, 2013.

CWA and the OUCC reached a settlement agreement on the amount of the revenue increase that should be authorized and filed the settlement agreement with the IURC on October 11, 2013. A hearing on the settlement agreement was held on November 21, 2013. The agreement would authorize a $51.0 million increase to operating revenues in two phases ($39.1 million increase upon issuance of order and a $12.3 million increase on October 1, 2014.) The other intervenors in the case, an ad hoc group of large industrial customers, did not join in the settlement agreement. CWA filed its proposed order on November 27, 2013. The OUCC's and intervenor's proposed orders are due on January 7, 2014. CWA's reply brief is due January 21, 2014. An order in the case is not expected until the spring of 2014.

Pending Acquisition – Westfield Water and Wastewater

On November 16, 2012, Citizens entered into asset purchase agreements with the City of Westfield (Westfield) for the sale of Westfield's water and wastewater utility assets to subsidiaries of CESCO, Citizens Water of Westfield, LLC and Citizens Wastewater of Westfield, LLC. The aggregate purchase price under the agreements is $91 million for the purchase of both the water utility assets and the wastewater utility assets. On November 20, 2012, the City of Westfield, Citizens Water of Westfield and Citizens Wastewater of Westfield filed a joint petition with the IURC seeking approval of the proposed acquisitions. The Commission held hearings on the acquisition proposal during the week of June 24, 2013. A settlement agreement between Citizens, the City of Westfield, and the OUCC was reached on October 16, 2013, and was filed with the IURC on that day. The IURC issued an Order approving the acquisition and the settlement agreement on November 25, 2013. Plans to secure financing for the acquisition are currently underway and the acquisition is anticipated to close in early 2014.

N.2 Regulatory Assets and Liabilities

Citizens' and CWA's rates are designed to recover the costs of providing service, thus certain items that would normally be reflected in the Combined Statements of Operations are deferred on the Combined Statements of Financial Position. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to expense through the rate-making process. Citizens and CWA continuously monitor changes in market and regulatory conditions and consider the effects of any changes in assessing the continual applicability of the FASB guidance related to regulated entities.

Regulatory assets were comprised of the following at September 30, 2013 and 2012 (in thousands):

		2013		2012	Recovery Period	Statement of Financial Position Location
Deferred Acquisition Transaction Costs	**$**	**10,819**	$	11,531	29 – 30 years	Other deferred charges
Decoupled Sales Component		**4,575**		6,970	1 – 15 months	Other deferred charges
Deferred Post-Retirement Benefit Costs		**451**		902	through 2014	Other deferred charges
Deferred Regulatory Proceeding Costs		**1,233**		787	1 – 9 years	Other deferred charges
Price Volatility Mitigation Program		**628**		690	1 – 13 months	Recoverable gas and fuel costs
Deferred Remediation Costs		**2,735**		1,757	Not yet recovered	Other deferred charges
Deferred Fuel Tracking Adjustments		**7,295**		10,417	1 – 18 months	Recoverable gas and fuel costs
Other		**1**		4	Various	Other deferred charges
Total Regulatory Assets	**$**	**27,737**	$	33,058		

Regulatory liabilities were comprised of the following at September 30, 2013 and 2012 (in thousands):

		2013		2012	Refund Period	Statement of Financial Position Location
Contributions in Aid of Construction	**$**	**89,138**	$	81,765	40 – 50 years	Contributions in aid of construction
Regulatory Credit for Remediation		**5,779**		5,705	Not yet refunded	Other long-term liabilities
Deferred Water Rights		**811**		750	10 – 11 years	Other long-term liabilities
Other		**3,448**		266	Various	Accounts payable and accrued expenses
Total Regulatory Liabilities	**$**	**99,176**	$	88,486		

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 $11.7 million and $3.3 million in 2013 and 2012, 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 of Comprehensive Income. Citizens' 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. Citizens 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

Citizens' 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 Citizens Board of Directors (Board) 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 October 2012, $0.9 million was authorized and approved for distribution as a result of fiscal year 2012 operations and was distributed in calendar year 2013.

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 are reported in the Statement of Financial Position in Other long-term liabilities, and are $16.0 million and $13.3 million at September 30, 2013 and 2012, 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 as a regulatory liability. The amounts of such contributions reflect construction costs not recoverable through the ratemaking process. Citizens and CWA 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, 2013 for Water and Wastewater are

$57.1 million and $32.0 million, respectively, versus the values at September 30, 2012 for Water and Wastewater of $55.4 million and $26.4 million, respectively.

S. New Accounting Guidance

In 2011, the FASB issued new accounting guidance regarding the presentation of comprehensive income within financial statements. The new guidance required entities report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of Other Comprehensive Income (OCI). The guidance did not change the items that must be reported in OCI. The new guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2012 and retrospective application was required. The Company adopted this guidance, as amended for condensed quarterly reporting, for the quarterly reporting period ended December 31, 2012.

In May 2011, the FASB issued accounting guidance to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments were not intended to change the application of the current fair value requirements, but to clarify the application of existing requirements. The guidance did change particular principles or requirements for measuring fair value or disclosing information about fair value measurements. To improve consistency, language was changed to ensure that U.S. GAAP and IFRS fair value measurement and disclosure requirements are described in the same way. The Company adopted this guidance for its quarterly reporting period ended June 30, 2013. The adoption of this guidance did not have a material impact on our financial position, results of operations or cash flows.

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 Citizens and CWA beginning in fiscal year 2014. The FASB issued clarifications regarding the scope of the disclosures about offsetting assets and liabilities in January 2013. Citizens and CWA are currently assessing the impact this guidance will have on its combined financial statements.

In February 2013, the FASB issued accounting guidance that revised the accounting for providing information about the amounts reclassified out of accumulated other comprehensive income (AOCI). The guidance became effective for fiscal years beginning after December 15, 2012. Citizens and CWA are currently evaluating the impact this guidance will have on its combined financial statements. See also Note 2P.

In February, 2013, the FASB issued a Proposed Accounting Standards Update regarding the recognition, measurement, and disclosure of obligations (within the scope of the Proposed update) resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date. The guidance in this proposed Update would require an entity to measure obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date using the guidance for Contingencies – Loss Contingencies. The guidance would also require an entity to disclose the nature and amount of the obligation as well as information about the risks that such obligations pose to an entity's future cash flows. If the primary role of a reporting entity in the joint and several liability arrangement is that of a guarantor, then it should account for the obligation under guidance for Guarantees. This guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2013. Citizens and CWA are currently evaluating the impact this guidance will have on its combined financial statements.

3. ACQUISITIONS

On March 15, 2013, CESCO acquired Southern Madison Utilities, LLC (SMU). SMU is a small unregulated water utility serving 28 retail customers in Madison County, Indiana, and a small portion of Hamilton County, Indiana. The utility also supplies wholesale water supplies to the Town of Pendleton, Indiana. The utility operates under the Citizens Southern Madison (CSM) brand. The acquisition was attractive because it improves water supply diversity in order to ensure reliable water service to customers in the rapidly growing Fishers area and the northeast perimeter of the Citizens Water service territory. SMU pumps about 200,000 gallons of water per day from one well field and treatment plant but has access to approximately 1.5 million gallons of daily water supply.

CSM is operated as an unregulated, for-profit entity of CESCO.

Consideration Transferred

SMU was acquired through a cash payment of $3.9 million. Because the acquisition took place late in the second quarter of the fiscal year 2013 reporting period, the purchase price allocation information below is preliminary:

	(In Thousands)
Property, Plant and Equipment	$3,897
Current Assets	82
Total Assets Acquired	3,979
Current Liabilities	86
Total Liabilities Assumed	86
Net Assets Acquired	$3,893

4. BOND RESTRICTED FUNDS

Under the terms of various trust indentures, Citizens and CWA are required to maintain bond restricted funds. These bond restricted funds are invested in short-term securities, commercial paper, and cash equivalents. Due to the nature of these investments, cost approximates fair market value of $203.8 million and $192.3 million at September 30, 2013 and 2012, respectively. Gross deposits to the bond restricted fund investments during 2013 and 2012 were $178.1 million and $175.3 million, respectively.

5. INVESTMENT IN UNCONSOLIDATED AFFILIATES

Summarized financial information of unconsolidated affiliates is presented below for the twelve months ended September 30 (in thousands).

	2013			2012		
	ProLiance	**Other**	**Total**	ProLiance	Other	Total
Condensed Statements of Operation:						
Revenues	**$ 727**	**$ 7,156**	**$ 7,883**	$1,072,639	$ 6,883	$1,079,522
Operating income (loss)	**(1,134)**	**2,289**	**1,155**	(11,944)	1,806	(10,138)
Net income (loss) from continuing operations	**(1,431)**	**1,092**	**(339)**			
Discontinued operations	**(98,174)**		**(98,174)**			
Net income (loss)	**(99,604)**	**1,092**	**(98,512)**	(14,293)	1,384	(12,909)
Condensed Statements of Financial Position:						
Current assets	**$11,689**	**$ 3,225**	**$14,914**	$ 248,238	$ 3,763	$ 252,001
Non-current assets	**47,843**	**17,650**	**65,493**	56,497	18,685	75,182
	$59,532	**$20,875**	**$80,407**	$ 304,735	$22,448	$ 327,183
Current liabilities	**$5,149**	**$1,215**	**$6,364**	$ 179,327	$ 1,743	$ 181,070
Non-current liabilities	**19,481**	**4,965**	**24,446**	2,881	5,508	8,389
Equity	**34,902**	**14,695**	**49,597**	122,527	15,197	137,724
	$59,532	**$20,875**	**$80,407**	$ 304,735	$22,448	$ 327,183

On June 18, 2013 ProLiance, a jointly-owned affiliate of Resources (39%) and Vectren Energy Marketing & Services, Inc., (61%) disposed of certain of the net assets, along with the long term pipeline and storage commitments, of its wholesale natural gas marketing subsidiary, ProLiance Energy, LLC (PLE), through a sale transaction with a subsidiary of Energy Transfer Partners (ETP), ETC Marketing, Ltd. (ETC). Under ETC's ownership, Citizens' gas utility customers will continue to receive the benefits of the portfolio administration services that were provided by PLE. As a result of this transaction, ProLiance recorded a loss of $64.1 million. Resources' share of the net loss was $25.0 million, consistent with its ownership share. ProLiance is accounted for under the equity method. This loss was reflected in the September 30, 2013 combined financial statements as a component of equity in loss of affiliates. To a great extent, the loss reflects the loss of prior earnings from the original investment of $0.5 million made in 1996. The fiscal year to date PLE net loss reflected in Equity in Earnings of Affiliates at Resources through the date of the disposition was $38.4 million inclusive of the loss on disposition of PLE, which coupled with the 2013 fiscal year losses on ProLiance operations other than PLE resulted in a total Resources' share of ProLiance's loss during fiscal year 2013 of $38.9 million.

As part of the sale, Resources provided a loan to ProLiance of $6.5 million. The note evidencing the loan is interest bearing and matures on June 24, 2018. The loan is secured by the remaining assets of ProLiance. The note balance at September 30, 2013 is $6.5 million. Resources earned less than $0.1 million in interest income from the note in 2013. See also Note 2D.

In addition, in connection with the disposition, Citizens and Vectren issued a guarantee to ETC. The guarantee issued by the partners is a backup guarantee to the $50.0 million guarantee issued by ProLiance to ETC, and provides for a maximum guarantee of $30.0 million, or $11.7 million for Citizens' 39 percent ownership share, and extends until 2016.

This guarantee will be called upon only in the event that ProLiance fails to pay ETC for a legitimate claim, and only if the ProLiance guarantee is not sufficient to satisfy the relevant obligations. Although there can be no assurance that these guarantees will not be called upon, Citizens believes that the likelihood that the partners or ProLiance will be called upon to satisfy any obligations pursuant to these guarantees is remote.

ProLiance's remaining assets include investments in physical storage, pipeline assets, and a minority joint venture in Liberty Gas Storage, LLC, a development project in Louisiana for a salt-cavern natural gas storage facility. Certain of the remaining assets of ProLiance are owned through Heartland Gas Pipeline, LLC (Heartland). Heartland, a joint venture between Resources and ProLiance, owns and operates an intrastate natural gas pipeline regulated by the IURC and is an affiliation of equal ownership between Resources and ProLiance. Operating services for Heartland are provided by Citizens. Citizens received storage rental fees from Heartland of $0.6 million in 2013 and 2012. Heartland is accounted for under the equity method.

On November 6, 2013, ProLiance Transportation & Storage, a wholly owned subsidiary of ProLiance, sold its wholly owned subsidiary Northern Storage to Ameren for $4.0 million.

Citizens purchased $119.2 million and $103.9 million of gas from ProLiance in 2013 and 2012, respectively. In addition, Citizens received less than $0.1 million in both 2013 and 2012 from ProLiance as reimbursement for various general and administrative expenses. At September 30, 2013 and 2012, Citizens owed ProLiance $0.0 and $8.0 million, respectively, for gas purchased.

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 Citizens, IPALCO and others. Citizens paid $0.3 million and $0.2 million to RPS for services in 2013 and 2012, respectively. Citizens received less than $0.1 million for reimbursement of payroll, employee benefit, and various general and administrative expenses paid on behalf of RPS in 2013 and 2012. RPS is accounted for under the equity method.

During 2012, Resources had a 45% interest in BHMM Energy Services, LLC (BHMM), an entity created to provide energy facilities management services at the Indianapolis Airport. Early in fiscal year 2013, the Indianapolis Airport Authority terminated its agreement with BHMM, and opted for a new service provider. The last day of operation of BHMM at the airport was December 4, 2012. The dissolution of the partnership between BHMM and Citizens took place during calendar year 2013. BHMM was accounted for under the equity method.

The activity for fiscal year 2013 for the investment in affiliates asset is as follows:

	(In Thousands)
Investment in affiliates at 9/30/12	$ 51,338
ProLiance	(33,001)
Heartland	525
RPS	(42)
BHMM	(560)
Investment in affiliates at 9/30/13	$ 18,260

6. LONG-TERM DEBT

Long-term debt consisted of the following:

	(In Thousands) 2013	2012
Citizens Gas		
Gas Utility System Series 1986B, Revenue Refunding Bonds, 3.50% to 4.00%, due 2013 to 2018	**$ 51,420**	$ 60,560
Gas Utility Distribution System Series 2008A, Second Lien Multi-Mode Revenue Bonds, 5.00%, due 2027 to 2030	**-**	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	**57,180**	60,140

	(In Thousands)	
	2013	2012
Gas Utility Distribution System Series 2009A, Second Lien Revenue Refunding Bonds, 3.00% to 5.00%, due 2009 to 2018	**12,450**	12,630
Gas Utility Distribution System Series 2010A, Second Lien Revenue Refunding Bonds, 4.00% to 5.00%, due 2019 to 2024	**59,975**	59,975
Gas Utility Distribution System Series 2013A, Second Lien Revenue Refunding Bonds, 4.125% to 5.25%, due 2027 to 2030	**54,465**	-
Net Unamortized Bond Premiums and Discounts	**6,304**	4,382
Current Maturities	**(12,430)**	(12,280)
Subtotal Citizens Gas Long-Term Debt	**285,219**	297,112
Water		
Water Utility Net Revenue Bonds Series 2011A, 4.375% to 5.500%, due 2011 to 2014	**4,410**	12,570
Water Utility Net Revenue Bonds Series 2011B, 4.00% to 5.00%, due 2011 to 2029	**69,705**	69,805
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	**96,955**	99,380
Water Utility Net Revenue Bonds Series 2011F, 4.00% to 5.00%, due 2012 to 2038	**545,845**	552,705
Water Utility Net Revenue Bonds Series 2011G, 2.00% to 5.125%, due 2012 to 2041	**57,170**	58,190
Water Utility Net Revenue Bonds Series 2011B, Second Lien, 3.00%, due 2014	**42,905**	42,905
Net Unamortized Bond Premiums	**594**	1,178
Current Maturities	**(19,525)**	(18,565)
Subtotal Water Long-Term Debt	**946,299**	966,408
Wastewater		
CWA Wastewater Utility Revenue Bonds Series 2011A, 2.00% to 5.25%, due 2012 to 2041	**672,540**	678,480
CWA Wastewater Utility Revenue Bonds Series 2011B, Second Lien, 5.00% to 5.25%, due 2014 to 2041	**268,015**	268,015
CWA Wastewater Utility Revenue Bonds Series 2011C, Second Lien, 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**	192,125
Obligation to reimburse City for debt service on Sanitary District General Obligation Bonds, see table below	**35,425**	41,803
Net Unamortized Bond Premiums	**67,038**	69,667
Current Maturities	**(15,195)**	(12,318)
Subtotal Wastewater Long-Term Debt	**1,265,938**	1,283,762

	(In Thousands) 2013	2012
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	**9,845**	10,620
Thermal Energy System Revenue Refunding Bonds Series 2010B, 1.50% to 5.00%, due 2011 to 2021	**65,505**	71,720
Wishard Construction Loan (based on LIBOR plus a margin, with a rate of 0.24% at September 30, 2011), due 2012	**-**	23,637
Thermal Energy System Revenue Bonds Series 2013A, 3.00% to 5.00% due 2014 to 2033	**8,585**	-
Thermal Energy System Revenue Bonds Series 2013B Put Bonds, 0.73%, due 2015 to 2034	**39,240**	-
Net Unamortized Bond Premiums and Discounts	**6,053**	7,092
Current Maturities	**(6,850)**	(30,247)
Subtotal Thermal Long-Term Debt	**172,448**	132,512
Total Long-Term Debt	**$ 2,669,904**	$ 2,679,794

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

	(In Thousands)
2014	$ 54,000
2015	108,461
2016	73,439
2017	120,192
2018	88,893
Thereafter	2,198,929
Total principal maturities	$2,643,914

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 and Series 2013A 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. On July 16, 2013, Citizens Gas issued $54.465 million of Second Lien GUDS Refunding Bonds, Series 2013A. The bond issue refunded the GUDS Series 2008A, which had a mandatory tender date of August 15, 2013. The Series 2013A Series bonds were issued at a premium of $2.03 million and have principal maturities due between 2027 and 2030 with coupons ranging from 4.125% to 5.25%. 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 are governed by bond indentures dated as of August 1, 2011. These bonds are secured by and payable from the net revenues of the Water System. Upon acquisition of the Water System on August 26, 2011, Citizens also succeeded to the obligations of the Indianapolis Waterworks Department with respect to the $958.3 million of Bond Bank bonds supported by the net revenues of the Water System and $0.3 million of District Subordinate Taxable Notes. The Indianapolis Local Public Improvement Bond Bank (Bond Bank) agreed to exchange its Department of Waterworks Bonds for identical bonds of Citizens. The Bond Bank debt included seven series of bonds, issued between 2002 and 2011. Maturity dates, at the time of closing, ranged from 2012 to 2041 and coupon rates ranged from 2.0 percent to 5.75 percent.

On August 26, 2011, the Water business segment also issued $42.9 million of Second Lien Water Utility Revenue Bonds, Series 2011B, due 2014. The Second Lien bonds are secured and payable from the net revenues of the Water System as provided in the respective bond indenture dated August 26, 2011. The series was issued at a premium of $1.8 million. The new debt was issued as three-year fixed rate bonds with a bullet maturity on October 1, 2014. The coupon rate is 3 percent. The proceeds of this series will be used to fund capital improvements, working capital and the initial start-up costs related to the acquisition and operation of the Water System. 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 have been used to fund capital improvements, working capital and the initial start-up costs related to the acquisition and operation of the Wastewater System. 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 ongoing and future capital expenditures on 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, 2013 are as follows:

	(In Thousands)
Wastewater General Obligation Bonds Series 2003A, 5.25%, due 2012 to 2018	**$ 5,840**
Wastewater General Obligation Bonds Series 2007C, 5.00%, due 2014 to 2018	**28,570**
Wastewater General Obligation Bonds Series 2009A, 2.75% to 4.00%, due 2012 to 2015	**1,015**
Total Wastewater General Obligation Bond Debt	**$35,425**

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 were used for construction of steam and chilled water facilities at the new Eskenazi Hospital (the Wishard Construction Loan). The loan was paid in full in September 2013.

On August 20, 2013, Citizens issued the Thermal Energy System First Lien Revenue Bonds, Series 2013A and B in the amount of $8.6 million and $39.2 million, respectively. The proceeds from the Series A bonds were used to pay back the Steam portion of the Wishard Construction Loan. These bonds have maturities from 2014 to 2033, with coupons ranging from 3.00% to 5.00%. They were issued with a premium of $0.2 million. The proceeds from the Series B bonds meet several needs of the Steam system, including repayment of its $20 million line of credit (see Note 7), funding for the Steam system conversion to natural gas boilers (see Note 2N – Citizens Thermal Steam), and funding for other capital needs. The Series B bonds are subject to a mandatory tender for purchase (put) on August 1, 2014. Therefore, these bonds will be remarketed prior to the put date, and then amortized over 20 years beginning on the closing date of the remarketed bonds. The coupon on the put bonds is 0.73%. If the bonds are not successfully remarketed by the put date, the interest rate on the outstanding obligations will be 11% until the bonds are successfully remarketed. The 2013B series was issued at par.

Covenants

Citizens and CWA are obligated to satisfy certain covenants, including meeting certain minimum debt service coverage requirements for each bond issue. Citizens' and CWA's debt service coverage ratios, as defined by each indenture, are summarized as follows for 2013:

	Minimum Covenant Requirement	2013 Actual
GUS Revenue Refunding Bonds Series 1986B	1.4	3.73
GUDS Revenue Refunding Bonds Series 2008B, Series 2008C, Series 2009A, Series 2010A, and Series 2013A Second Lien Multi-Mode Revenue and Revenue Refunding Bonds	1.0	1.78
Water Utility Net Revenue Bonds Series 2011A-2011G	1.1	1.21
Water Utility Net Revenue Second Lien Bonds Series 2011B	1.1	1.19
CWA Wastewater Utility Revenue Bonds Series 2011 and Series 2012A	1.2	1.91
CWA Wastewater Utility Revenue Second Lien Bonds Series 2011B and 2011C	1.1	1.48
Thermal Energy System Revenue Bonds Series 2008, Series 2010A and 2010B, and Series 2013A and 2013B	1.0	1.72

In addition, Citizens and CWA have covenants specifying in the event that debt service covenants cannot be met, Citizens and CWA shall take any appropriate action under the law and within its power, to generate income and revenues of the GUS, GUDS, Water System, Wastewater System and Thermal Energy System, respectively, in the amounts required to satisfy the covenants for subsequent fiscal years. These actions include, but are not limited to, the filing of a proceeding seeking additional revenues or other relief before the IURC. At September 30, 2013, Citizens and CWA were in compliance with all debt covenants.

As of September 30, 2013, the Water System maintains $6.9 million in the Rate Stabilization Fund. For purposes of satisfying its rate covenant, per the Water System indenture, Citizens may transfer funds from the Rate Stabilization Fund to revenues in any fiscal year, so long as the funds were not transferred to the Rate Stabilization Fund during such fiscal year. These funds were transferred to the Rate Stabilization Fund in fiscal 2012 and continue to be available to support net revenues of the Water System in future years.

7. SHORT-TERM BORROWINGS

Citizens Gas had $50.0 million in commercial paper outstanding at September 30, 2013 and 2012. The commercial paper has a maximum maturity of 270 days and is to be re-marketed in November 2013. 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, 2013, 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 2013 with an interest rate of LIBOR plus 1.125 percent. This line of credit is with PNC Bank, N.A (PNC). The other $25.0 million line of credit, with J.P. Morgan 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, 2013, $30.0 was outstanding on the line. The commitment fee on the line as of September 30, 2013 is 0.35 percent. The commitment fee is based on the capacity of the line of credit and the applicable rate of interest on balances drawn on the line was 70 percent of LIBOR plus 0.9 percent as of September 30, 2013. The commitment fee and applicable rate of interest may increase or decrease over the life of the facility if changes occur to the First Lien credit ratings of the Wastewater System. The line of credit will mature on August 26, 2014.

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. As of September 30, 2013, $15.0 million was outstanding on the line. As of September 30, 2012, no amounts were outstanding.

On April 24, 2013, Water closed on a working capital line of credit with BMO Harris Bank, N.A. The capacity on the line is $30.0 million. The line of credit has a maturity date of April 2015 with an interest rate of LIBOR plus 0.92 percent. As of September 30, 2013, there was not a balance outstanding on the line.

Thermal maintains a $20.0 million line of credit with J.P. Morgan Chase to support working capital and capital expenditures. As of September 30, 2013, no amount was outstanding on the line so the entire amount remained available. As of September 30, 2012, $14.0 million was outstanding on the line. The balance on the line was repaid with proceeds from the Thermal Series 2013B bond issuance. The line of credit has a maturity date of June 2014 with an interest rate of LIBOR plus 1.30 percent.

On August 28, 2013, Kinetrex closed on a construction note and a line of credit with PNC. The construction note was for $14 million. The note matures on the earlier of 24 months from closing or when the $14 million is fully drawn. Kinetrex may elect to convert the construction note to a five-year term loan at any time up to the date of maturity. The line of credit has a capacity of $3 million for working capital needs and matures three years from the closing date. As of September 30, 2013, $0.2 million had been drawn on the construction note and $0.1 million had been drawn on the line of credit.

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, 2013 and 2012, respectively:

	(In Thousands)	
	9/30/13	9/30/12
Accounts payable	**$ 77,784**	$ 84,654
Accrued interest	**49,838**	45,135
Customer credit balances	**15,124**	19,407
Salaries and employee benefits	**16,699**	18,918
Related party payable – ProLiance	**0**	8,021
Post-retirement benefits	**3,553**	3,565
Other	**3,423**	811
Total accounts payable and accrued expenses	**$166,421**	$180,511

9. RETIREMENT PLANS

Citizens has a non-contributory defined benefit pension plan covering substantially all full-time employees. The policy of Citizens is to fund amounts necessary to maintain the plan on an actuarially sound basis. Contributions are intended to provide not only benefits attributed to service-to-date but also for benefits expected to be earned in the future. Citizens also has a defined-benefit pension plan for certain Water bargaining employees. Citizens elected to freeze the plan as of September 30, 2011, and the participants are no longer accruing benefits.

In addition to providing defined benefit pension plan benefits, Citizens 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 covers certain former employees of Indianapolis Water Company.

The thrift savings plans are defined contribution plans covering most employees. Citizens matches a portion of the contributions made by the employees to the savings plans. The cost to Citizens for its matching portion was $1.7 million and $1.4 million in 2013 and 2012, respectively.

Citizens 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 Citizens is dependent upon the age and years of service at the date the employee retires. The post-retirement benefit plans are unfunded. Citizens 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, Citizens 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, $4.9 million and $4.5 million through September 30, 2013 and 2012, respectively, leaving a deferred balance of $0.5 million and $0.9 million as of September 30, 2013 and 2012, respectively. Post-retirement benefit costs applicable to the Water, Thermal, Manufacturing and Oil segments have not been deferred.

Citizens also assumed responsibility for benefits of the legacy Water plan with respect to employees that were retired (as well as eligible dependents) as of the date of acquisition (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. Citizens acquired the Grantor Trust as part of the acquisition and continues to make contributions to the trust from operating revenues of the Water System as authorized by the IURC. Benefits are paid from the Grantor Trust.

The following table sets forth the funded status of the defined benefit pension and other post-retirement benefit plans as of the measurement date, reconciled with the amount reported in Citizens' and CWA's Combined Statements of Financial Position at September 30, 2013 and 2012:

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2013	2012	**2013**	2012
Projected Benefit Obligation (PBO)	**$ 310,871**	$ 343,057	**$ 72,353**	$ 76,532
Plan assets at fair value	**238,466**	211,311	**–**	–
Funded status	**$(72,405)**	$(131,746)	**$(72,353)**	$(76,532)
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Current liability	**$ –**	$ –	**$ (3,957)**	$ (4,001)
Non-current liability	**(72,405)**	(131,746)	**(68,396)**	(72,531)
Net amounts recognized	**$(72,405)**	$(131,746)	**$(72,353)**	$(76,532)
Amounts in Accumulated Other Comprehensive Income (AOCI) not in costs*:				
Unrecognized transition obligation	**$ –**	$ –	**$ 16**	$ 604
Unrecognized prior service cost	**2,085**	2,447	**(9,692)**	(10,465)
Unrecognized actuarial loss	**81,504**	144,870	**9,285**	16,736
Total Amounts in AOCI	**$ 83,589**	$ 147,317	**$ (391)**	$ 6,875

* The amounts expected to be recognized in 2014 out of AOCI, are $4.7 million for the defined benefit pension plan and $(0.6) million for the other benefits.

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

	Defined Benefit Pension (InThousands)		Other Benefits (In Thousands)	
	2013	2012	**2013**	2012
Service cost-benefits attributed to service during the period	**$ 10,784**	$ 8,803	**$3,360**	$2,565
Interest cost	**12,334**	12,601	**2,518**	3,071
Actual (gain) on assets	**(25,445)**	(31,470)	–	–
Amortization of transition obligation	–	–	**588**	588
Amortization of prior service cost	**361**	361	**(773)**	(682)
Amortization of loss	**8,595**	7,374	**1,184**	524
Deferred actuarial (loss) gain	**11,901**	19,597	**–**	–
Net periodic benefit cost	**18,530**	17,266	**6,877**	6,066
Settlement expense (gain) loss	**(76)**	–	–	–
Total expense for the year	**$ 18,454**	$ 17,266	**$6,877**	$6,066

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

	Citizens Defined Benefit Pension		Citizens Other Benefit	
	2013	2012	**2013**	2012
Average discount rate	**4.65%**	3.70%	**4.32%**	3.38%
Rate of increase in future compensation levels	**3.50%**	3.50%	–	–

	Water Defined Benefit Pension	
	2013	2012
Average discount rate	**4.00%**	3.19%
Rate of increase in future compensation levels	–	-

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

	Citizens Defined Benefit Pension		Citizens Other Benefit	
	2013	2012	**2013**	2012
Average discount rate	**3.70%**	4.54%	**3.38%**	4.13%
Rate of increase in future compensation levels	**3.50%**	3.50%	–	–
Expected long-term rate of return on assets	**6.37%**	6.71%	–	–

	Water Defined Benefit Pension	
	2013	2012
Average discount rate	**3.19%**	4.21%
Rate of increase in future compensation levels	–	–
Expected long-term rate of return on assets	**6.37%**	6.71%

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

	Citizens Other Benefit	
	2013	2012
Health care cost trend rate assumed for next year	**8.5%**	8.5%
Rate to which the cost trend rate is assumed to decline	**5.0%**	5.0%
Year that the rate reaches the ultimate trend rate	**2020**	2019

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

Assets of the defined benefit pension plan consist principally of investments in long-term and intermediate-term fixed income securities and common stocks. The measurement date of September 30 was used to determine the pension cost for the years 2013 and 2012.

The following table presents the pension assets measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2013 and 2012 (in thousands):

Description	2013 Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pension Assets:			
Cash equivalents	**$ 3,889**	**$ -**	**$ -**
Equities	**140,759**	**8,989**	**-**
Fixed income	**84,819**	**-**	**-**
Other assets	**-**	**-**	**-**
Total pension assets measured at fair value	**$229,467**	**$8,989**	**$ -**

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

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

Citizens' pension plan weighted-average asset allocation as of September 30, 2013 and 2012, by asset category is as follows:

	2013	2012
Equity securities	**61%**	60%
Debt securities	**38%**	37%
Other	**1%**	3%
Total	**100%**	100%

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

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

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2013	2012	**2013**	2012
Employer contributions (net of participant contributions)	**$ 14,069**	$ 14,895	**$ 3,810**	$ 6,229
Benefits paid	**13,058**	12,029	**3,810**	6,229

Citizens expects to contribute, at a minimum, $17.8 million to the pension plans for 2014. 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)
2014	$ 13,729	$ 3,957
2015	14,562	4,095
2016	15,200	4,263
2017	16,190	4,543
2018	16,533	4,824
Years 2019-2023	96,256	26,080

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) **2013**	2012
Effect on total of service and interest cost	**$ 752**	$ 665
Effect on post-retirement benefit obligation	**7,640**	8,558

10. FINANCIAL SEGMENT INFORMATION

Operations of Citizens include activities in six reportable 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 CWA include activities for the Wastewater business segment. The Chief Executive Officer is the chief operating decision maker for Citizens and CWA.

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 in southern Indiana.

Resources conducts for-profit business activities in order to ultimately provide enhanced benefits to Citizens' beneficiaries. Resources includes affiliate joint venture interests of $18.3 million and $51.3 million at September 30, 2013 and 2012 respectively, including ProLiance and Heartland. In June, 2013, ProLiance sold certain net assets and pipeline and storage commitments of its subsidiary, ProLiance Energy, LLC. See Note 5. Resources also includes several wholly owned subsidiaries under CESCO which serves as a holding company for several LLC subsidiaries. CESCO subsidiaries include: Westfield Gas, a regulated natural gas distribution utility; Kinetrex, a provider of LNG for use as transportation fuel (See Note 2N); and CSM, a small unregulated water utility (See Note 3). See also Note 2N regarding the pending acquisitions of Westfield Water and Westfield Wastewater.

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

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, 2013 and 2012 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, 2013

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Eliminations	Total
Operating revenues										
Customer revenues	$277,852	$161,873	$154,952	$ 63,737	$ 41,911	$ 6,142	$ 4,983	$ -	$ -	**$711,450**
Intercompany revenues	1,188	1,589	1,212	3,222	-	-	-	-	(7,211)	**-**
Total operating revenues	279,040	163,462	156,164	66,959	41,911	6,142	4,983	-	(7,211)	**711,450**
Operating expenses:										
Cost of goods sold	141,109	-	-	37,123	13,075	-	2,406	-	(5,880)	**187,833**
Operations and maintenance	81,802	80,868	64,861	24,195	8,929	2,211	6,743	(98)	(1,304)	**268,207**
Depreciation and amortization	22,952	37,516	56,043	4,391	6,122	233	547	-		**127,804**
Taxes	8,735	12,973	14,875	1,373	2,037	143	376	375		**40,887**
Total operating expenses	254,598	131,357	135,779	67,082	30,163	2,587	10,072	277	(7,184)	**624,731**
Total operating income (loss)	24,442	32,105	20,385	(123)	11,748	3,555	(5,089)	(277)	(27)	**86,719**
Other income (expense)-net:										
Interest income	42	1,894	316	-	8	-	104	28	-	**2,392**
Other	(2,340)	6,293	(1)	-	12	-	1,250	(5,393)	-	**(179)**
Total other income (expense)	(2,298)	8,187	315	-	20	-	1,354	(5,365)	-	**2,213**
Income (loss) before equity in loss of affiliates and interest charges	22,144	40,292	20,700	(123)	11,768	3,555	(3,735)	(5,642)	(27)	**88,932**
Equity in loss of affiliates	-	-	-	-	-	-	(38,323)	-	-	**(38,323)**
Interest charges:										
Interest on long-term debt	14,942	50,755	59,918	2,975	3,160	-	-	-	-	**131,750**
Other interest including net premium (discount) amortization	1,872	(1,715)	(10,766)	(15)	(546)	-	-	(203)	-	**(11,373)**
Total interest charges	16,814	49,040	49,152	2,960	2,614	-	-	(203)	-	**120,377**
Income (loss) from continuing operations	5,330	(8,748)	(28,452)	(3,083)	9,154	3,555	(42,058)	(5,439)	(27)	**(69,768)**
Loss from discontinued operations	-	-	-	-	-	-	-	(11,528)	27	**(11,501)**
Net income (loss)	$ 5,330	$ (8,748)	$ (28,452)	$ (3,083)	$ 9,154	$ 3,555	$ (42,058)	$ (16,967)	$ -	**$ (81,269)**

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	$255,065	$170,856	$156,516	$ 64,303	$ 39,645	$ 6,168	$ 3,866	$ -	**$696,419**
Operating expenses:									
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	(110)	**249,135**
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	127	**580,555**
Total operating income (loss)	32,446	45,152	28,829	(624)	10,343	3,973	(4,128)	(127)	**115,864**
Other income (expense)-net:									
Interest income	65	2,616	158	1	23	-	47	9	**2,919**
Other	51	246	11	-	(15)	-	4	(4,330)	**(4,033)**
Total other income (expense)	116	2,862	169	1	8	-	51	(4,321)	**(1,114)**
Income (loss) before equity in loss of affiliates and interest charges	32,562	48,014	28,998	(623)	10,351	3,973	(4,077)	(4,448)	**114,750**
Equity in loss 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 Financial Position

Citizens Energy Group and Subsidiary and CWA Authority, Inc., Indianapolis, Indiana
(In Thousands)
At September 30, 2013

	Citizens Gas	Water	Waste-water	Steam	Chilled Water	Oil	Resources	Other	Total
Assets									
Property, Plant and Equipment	$ 296,226	$ 1,037,140	$ 1,165,139	$ 68,922	$ 68,523	$ 292	$ 18,608	$ 23,777	**$ 2,678,627**
Intangibles	-	-	-	21,087	71,490	-	-	-	**92,577**
Investments	18,584	87,662	114,099	9,334	5,227	-	26,480	398	**261,784**
Cash and Cash Equivalents	54,392	22,011	59,451	8,868	2,902	4,224	10,031	32,946	**194,825**
Other Current Assets	86,970	32,457	27,974	16,594	13,637	738	9,941	(11,713)	**176,598**
Deferred Charges and Other Non-Current Assets	21,026	8,053	14,855	2,509	862	15	909	4,366	**52,595**
Total Assets	$ 477,198	$ 1,187,323	$ 1,381,518	$ 127,314	$ 162,641	$ 5,269	$ 65,969	$ 49,774	**$ 3,457,006**
Capitalization and Liabilities									
Retained Earnings and Accumulated OCI	$ 26,607	$ 53,708	$ (44,119)	$ 1,121	$ 85,052	$ 4,381	$ 54,289	$ (73,465)	**$ 107,574**
Long-Term Debt	285,219	946,299	1,265,938	107,492	64,956	-	-	-	**2,669,904**
Retirement Benefit and Other Long-Term Liabilities	43,725	111,006	33,040	6,902	1,957	467	8	105,715	**302,820**
Current Liabilities	121,647	76,310	126,659	11,799	10,676	421	11,672	17,524	**376,708**
Total Capitalization and Liabilities	$ 477,198	$ 1,187,323	$ 1,381,518	$ 127,314	$ 162,641	$ 5,269	$ 65,969	$ 49,774	**$ 3,457,006**

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**

Capital Expenditures – Accrual Basis

	Capital Expenditures (In Thousands)	
	2013	2012
Citizens Gas	**$ 20,337**	$ 21,960
Water	**58,916**	37,756
Wastewater	**170,032**	190,235
Steam	**9,459**	7,936
Chilled Water	**2,261**	10,029
Oil	**-**	-
Resources	**796**	181
Other	**26,442**	27,308
Total	**$288,243**	$295,405

Additional Thermal Financial Information

Additional Thermal financial information for the years ended September 30, 2013 and 2012 is summarized as follows:

	(In Thousands)	
	2013	2012
Net Income	**$ 6,071**	$ 3,954
Total Liabilities	**203,782**	207,217
Equity	**86,173**	73,993
Interest Charges on Long-Term Debt	**6,135**	6,228
Cash Flow Information:		
Cash and Cash Equivalents, Beginning of Fiscal Year	**$ 16,029**	$ 22,982
Cash Provided by Operating Activities	**2,752**	20,538
Cash Used in Investing Activities	**(10,591)**	(18,005)
Cash Used in Financing Activities	**3,579**	(9,486)
Cash and Cash Equivalents, End of Fiscal Year	**$ 11,769**	$ 16,029

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 $0.9 million and $1.1 million at September 30, 2013 and 2012, 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. Citizens revised these estimates in both the timing and amount of the estimated cash flows in September, 2013. The net result of this adjustment was a $5.5 million increase to the asset retirement obligation liability in September, 2013, relating to increased estimates for remaining plant demolition and environmental remediation. The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations in Other) for fiscal years ended September 30, 2013 and 2012 are as follows:

	(In Thousands)	
	2013	2012
Current Assets	**$ 1,328**	$ 932
Deferred Charges and Other Non-Current Assets	**895**	1,094
Total Assets	**$ 2,223**	$ 2,026
Retained earnings and Accumulated OCI	**$(49,889)**	$(47,511)
Retirement Benefit and Other Long-Term Liabilities	**51,411**	48,349
Current Liabilities	**701**	1,188
Total Capitalization and Liabilities	**$ 2,223**	$ 2,026

For fiscal years ended September 30, 2013 and 2012, Discontinued Operations operating expenses were $11.5 million and $6.4 million, respectively.

The activity for fiscal years 2013 and 2012 for the asset retirement obligation liability is as follows:

	(In Thousands)
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
Accretion expense	5,118
Demolition liabilities settled	(965)
Remediation liabilities settled	(1,737)
Change in cash flows (September, 2013)	5,561
Asset retirement obligation at 9/30/13	$45,209

12. DERIVATIVES AND HEDGING

Citizens' Price Volatility Mitigation Policy sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. Citizens' objectives for using derivatives are to decrease the volatility associated with fluctuating natural gas prices. Citizens 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 Citizens' derivative instruments and hedge activities. The first table provides a financial position overview of Citizens' Derivative Assets and Liabilities as of September 30, 2013 and September 30, 2012, respectively, while the latter table provides a breakdown of the related impact on the results of operations for the year ended September 30, 2013 and September 30, 2012, respectively. Citizens recovers all derivative costs through its regulatory mechanism for gas cost adjustments.

Fair Value of Derivative Instruments at September 30, 2013 (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	**$536**	**($153)**

Fair Value of Derivative Instruments at September 30, 2012 (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)

(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 7.2 million and 8.6 million dekatherms at September 30, 2013 and September 30, 2012, 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 $0.6 million and $0.7 million at September 30, 2013 and September 30, 2012, respectively. The margin asset was $0.4 million and $0.8 million at September 30, 2013 and September 30, 2012, respectively.

Derivative Impact on 2013 Statement of Operations (in Thousands)

Derivative instrument	Derivative Designation	Statement of Operations Location	September 30
Commodity contracts	Not accounted for as a hedge	Gain in Utility Cost of Goods Sold	**$781**

Derivative Impact on 2012 Statement of Operations (in Thousands)

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

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 year ended at September 30, 2013 and at September 30, 2012 was an increase of $0.5 million and a decrease of $0.3 million, respectively.

13. COMMITMENTS AND CONTINGENCIES

A. Environmental Commitments and Contingencies

Citizens and CWA 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. Citizens and CWA have no way of estimating the enactment or promulgation of future environmental laws and regulations.

Langsdale Environmental Remediation

A merchant coke plant operated at Citizens' 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, Citizens 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, Citizens cannot estimate the costs associated with environmental remediation of this site.

Water System

The Water System is currently in compliance with the requirements of the Clean Water Act, the Safe Drinking Water Act, the Disinfectants and Disinfection Byproducts Rule, the Enhanced Surface Water Treatment Rule, the Radon Rule and other applicable laws, except to the extent that such non-compliance would not have a material adverse effect on the Water System.

Wastewater System

The Wastewater System is subject to wastewater collection and treatment requirements under both federal and state law. Those requirements are contained in a National Pollutant Discharge Elimination System (NPDES) permit. Both United States Environmental Protection Agency (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 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 $1.9 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 remaining planned capital cost of $7.1 million as of September 30, 2013.

B. Legal Contingencies and Contractual Commitments

B.1 Legal Contingencies

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

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 was investigated by various agencies, including the Indianapolis Fire Department, the Indianapolis Metropolitan Police Department and the Marion County Prosecutor's Office. Citizens Gas cooperated fully with the investigation and found no evidence of leaks in the gas pipelines serving the home or neighborhood. On December 21, 2012, three individuals were arrested and charged with murder and multiple other felony counts for having deliberately planned and caused this explosion. Trial dates for the individuals charged have not yet been set.

Citizens and other governmental entities have received tort claim notices from homeowners allegedly affected by the incident. We cannot predict the potential for future litigation or the outcome of any such litigation related to this incident.

B.2 Contractual Commitments

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 EPA, Indiana Department of Environmental Management (IDEM), and the City, as amended (the Consent Decree). CWA has a Capital Improvement Plan to meet guidelines of the Consent Decree and the overall needs of the Wastewater System. The improvements related to the Consent Decree and the Long Term Control Plan (LTCP) have been planned and scheduled out through 2025. The Deep Rock Tunnel system, the most significant element of the Consent Decree, is the largest sewer infrastructure project in the City's history. The Deep Rock Tunnel Connector is the first segment of a 250' deep, 25-mile underground tunnel system designed to store 250 million gallons of raw sewage during a rain event, to prevent overflows from entering area rivers and streams. The stored flows will eventually be pumped to the Southport Treatment plant, which is also undergoing significant expansion as a part of this Consent Decree. During fiscal year 2013, the first phase of the Deep Rock Tunnel Connector (DRTC) began, with over 25 thousand feet of tunnel mined.

United Water Management Contract

In connection with the Wastewater System acquisition, 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. Management and incentive fees with United Water were $38.5 million for the twelve months ending September 30, 2013, which included $4.8 million for stormwater management. It is anticipated that management and incentive fees for fiscal year 2014 will be $40.2 million, including $4.8 million for stormwater management.

Stormwater Management Agreement

Also in connection with the Wastewater System acquisition, the City retained ownership of its stormwater system; however, the stormwater system was 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 manages and operates the stormwater system through United Water. The City compensates CWA approximately $5.3 million annually, including up to $0.5 million in capital improvements, of which approximately $4.8 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 provides to the City.

C. Lease Contractual Commitments

Citizens and CWA have entered into operating leases for storage of natural gas at various sites and for miscellaneous equipment. Lease expenses were $11.6 million and $11.4 million for the years ended September 30, 2013 and 2012, respectively. Future minimum lease payments under noncancelable operating leases as of September 30, 2013 are as follows:

	(In Thousands)
2014	$11,489
2015	10,794
2016	5,723
2017	449
2018	299
Thereafter	0
Total minimum lease payments	$ 28,754

14. SUBSEQUENT EVENTS

Management has considered the impact of subsequent events through December 18, 2013, the date at which these combined financial statements were issued.

On October 22, 2013, Kinetrex announced it had entered into a contract with a major logistics company to supply LNG for a fleet of approximately 1,000 LNG vehicles in a multi-state region. Starting in March, 2014, Kinetrex will provide fuel to five LNG fueling stations being constructed at the company's distribution hubs in Indiana, Illinois, Ohio, and Missouri.

On December 12, 2013, Citizens Energy Group Thermal Division sold the Chilled Water plant located at 1146 Division Street, Indianapolis Indiana to Eli Lilly and Company for $12.0 million. The current chilled water customer contract ending on February 28, 2016 was terminated and both parties entered into a facilities operation and maintenance agreement ending December 31, 2014. The estimated impact to net income from the sale of the plant assets and the termination of the customer contract is a write-off of $2.7 million.

INDEPENDENT AUDITORS' REPORT

To the Boards of Directors for Citizens Energy Group and Subsidiary and CWA Authority, Inc.

We have audited the accompanying combined financial statements of Citizens Energy Group and Subsidiary and CWA Authority, Inc., both of which are under common ownership and common management, which comprise the combined statements of financial position as of September 30, 2013 and 2012, and the related combined statements of operations, comprehensive income (loss), equity and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the companies' preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the companies' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens Energy Group and Subsidiary and CWA Authority, Inc. as of September 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Indianapolis, Indiana
December 18, 2013

REPORT OF MANAGEMENT

Citizens and CWA 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 Citizens and CWA. 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.

Citizens and CWA 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 Citizens and CWA. 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 Citizens and CWA. The committee meets periodically with management, the internal auditors and the independent auditors in connection with its review of matters pertaining to Citizens' and CWA's combined 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