citizens energy group™

2010 Management Discussion and Financial Report

Management Discussion and Analysis

Forward-looking Statements

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

Financial Highlights:

Results of Operations

The operations of the Trust include activities in five business segments: Citizens Gas, Steam, Chilled Water, Oil and Citizens Resources (Resources). Resources includes affiliate joint venture interests, the most significant of which is ProLiance Holdings, LLC (ProLiance) (see Note 3 of the consolidated financial statements) as well as several wholly owned subsidiaries, one of which (Westfield Gas) is operated as a regulated natural gas distribution utility. While each of these business segments offers distinctive products and services to its customers and markets, all are dedicated to customer service excellence in the energy and energy service industries. Furthermore, each of these business segments contributes to the overall financial performance of the Trust and provides an element of risk mitigation due to the diversification of risk related to economic and seasonal market cycles. The former Manufacturing business segment has been reported as Discontinued Operations.

The Trust reported consolidated net loss of $1.8 million in 2010 as compared to net loss of $6.1 million in 2009. The $4.3 million improvement in net loss is summarized as follows:

	(In Millions)		
	2010	2009	Change
Operating Revenues:			
Utility	**$ 395.6**	$ 514.9	$ (119.3)
Non-Utility	**45.1**	40.3	4.8
Total Operating Revenues	**440.7**	555.2	(114.5)
Operating Expenses:			
Cost of Goods Sold:			
Utility	**232.8**	347.2	(114.4)
Non-Utility	**11.7**	11.1	0.6
Total Cost of Goods Sold	**244.5**	358.3	(113.8)
Other Operating Expenses	**162.6**	167.0	(4.4)
Total Operating Expenses	**407.1**	525.3	(118.2)
Total Operating Income	**33.6**	29.9	3.7
Other Income (Expense), Net	**(9.0)**	(1.5)	(7.5)
Equity in Earnings of Affiliates	**4.9**	0.7	4.2
Interest Charges	**26.7**	28.0	1.3
Income from Continuing Operations	**2.8**	1.1	1.7
Loss from Discontinued Operations	**(4.6)**	(7.2)	2.6
Net Loss	**$ (1.8)**	$ (6.1)	$ 4.3

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

Utility Operating Revenues

Utility operating revenues decreased $119.3 million to $395.6 million in 2010, from $514.9 million in 2009 due to the following:

Citizens Gas – decrease of $116.2 million. Total operating revenues for Citizens Gas decreased to $321.8 million in 2010 versus $438.0 million in 2009, on volume of gas sold and transported of 45.4 million dekatherms in 2010 versus 47.3 million dekatherms in 2009. Revenue decreased by $113.4 million due to lower gas cost recovery revenues in 2010. Base rate revenue decreased $4.3 million due to lower volumes of gas sold, which was offset by increased revenue of $3.1 million from rate mechanisms for Decoupling and Normal Temperature Adjustment. Miscellaneous revenues decreased $1.6 million compared to 2009.

Steam Division – decrease of $2.0 million. Total operating revenues for the Steam Division decreased to $69.8 million in 2010 versus $71.8 million in 2009, on volume sales of 65.0 million therms in 2010 versus 67.1 million therms in 2009. Revenue decreased by $2.0 million due to lower fuel cost recovery revenue of $2.2 million, partially offset by increased miscellaneous revenues of $0.2 million compared to 2009. Base rate revenue remained constant compared to 2009 as revenues decreased by $2.0 million due to a reduction in therms sold caused by customer conservation and weather and increased by $2.0 million due to an increase in base rates effective May 2010 (see Note 1.N.a of the consolidated financial statements for further details).

Resources; Westfield Gas – decrease of $1.1 million. Total operating revenues for Westfield Gas decreased to $4.0 million in 2010 versus $5.1 million in 2009, on volume sales of 463.6 thousand dekatherms in 2010 versus 491.8 thousand dekatherms in 2009. Revenue decreased by $1.0 million due to lower gas cost recovery revenues and $0.4 million due to lower usage as a result of customer conservation compared to 2009. A base rate increase and Decoupling rate mechanism were implemented in March 2010 and resulted in additional revenue of $0.3 million.

Non-Utility Operating Revenues

Non-utility operating revenues increased $4.8 million to $45.1 million in 2010, from $40.3 million in 2009 due to the following:

Chilled Water Division – increase of $3.9 million. Total operating revenues for the Chilled Water Division increased to $37.8 million in 2010 versus $33.9 million in 2009, on volume sales of 170.0 million ton hours in 2010 versus 150.8 million ton hours in 2009. Revenue increased $2.4 million primarily due to an increase of 60% in cooling degree days compared to 2009. Growth due to new customers resulted in an additional $1.5 million increase.

Oil Division – increase of $1.2 million. Total operating revenues for the Oil Division increased to $5.2 million in 2010 versus $4.0 million in 2009, on volume sales of 88 thousand barrels of oil in 2010 versus 94 thousand barrels of oil in 2009. Revenue averaged $59 per barrel in 2010 versus $43 per barrel in 2009.

Resources; Citizens Mechanical Services (CMS) & Covance Laboratory Group (CLG) – decrease of $0.3 million. CMS was sold on May 1, 2009. Total operating revenues for CMS in 2009 were $1.8 million. Total operating revenues for CLG, previously reported in the Chilled Water Division until June 2009, increased to $2.1 million in 2010 versus $0.6 million in 2009.

Utility Cost Of Goods Sold

Utility cost of goods sold decreased $114.4 million to $232.8 million in 2010, from $347.2 million in 2009 due to the following:

Citizens Gas – decrease of $111.2 million. Total gas costs for Citizens Gas decreased to $188.0 million in 2010 versus $299.2 million in 2009. The weighted average cost of gas decreased 5.1%, from $5.91 per dekatherm in 2009 to $5.61 in 2010. Storage transactions netted a $47.5 million decrease, primarily the result of lower withdrawals at lower average cost during the November 2009 through March 2010 winter heating season, offset by lower injections at higher average cost during the subsequent April through September 2010 storage refill season. Purchased gas delivered directly to customers and company use gas decreased $35.1 million. Gas Cost Adjustments decreased $28.6 million for 2010 compared to 2009. Pricing for natural gas is driven by market factors.

Steam Division – decrease of $2.0 million. Total cost of goods sold for the Steam Division decreased to $42.4 million in 2010 versus $44.4 million in 2009. This decrease was due to lower average fuel costs and sales volumes compared to 2009.

Resources; Westfield Gas – decrease of $1.2 million. Total cost of goods sold for Westfield Gas decreased to $2.4 million in 2010 versus $3.6 million in 2009. This decrease was due to lower average commodity prices and sales volumes compared to 2009.

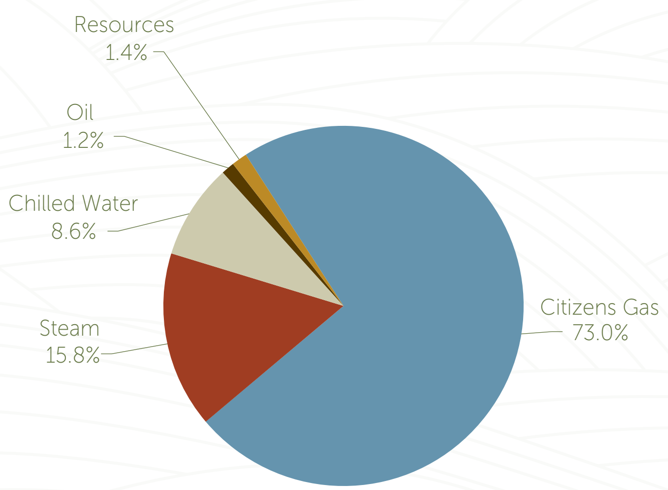
Non-Utility Cost Of Goods Sold

Non-utility cost of goods sold increased $0.6 million to $11.7 million in 2010, from $11.1 million in 2009 due to the following:

Chilled Water Division – increase of $1.3 million. Total cost of goods sold for the Chilled Water Division increased to $11.7 million in 2010 versus $10.4 million in 2009. This increase was primarily due to a 12.7% increase in ton hours sold. The average cost per ton hour sold remained constant compared to 2009.

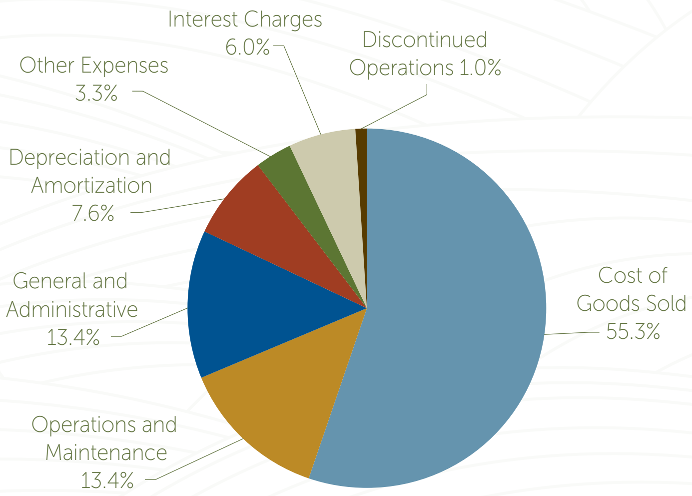
Source of 2010 Revenue Dollars

2010 Revenues = $ 441 million



Distribution of 2010 Expense Dollars

2010 Expenses = $ 443 Million



Resources; Citizens Mechanical Services (CMS) – decrease of $0.7 million. CMS was sold on May 1, 2009. Total cost of goods sold for CMS for 2009 was $0.7 million.

Other Operating Expenses

Other operating expenses decreased $4.4 million to $162.6 million in 2010, from $167.0 million in 2009 due to the following:

Other Operations and Maintenance (O&M) – decrease of $0.2 million. Other O&M by business segment for 2010 versus 2009 is as follows (in thousands):

	2010	2009	Change
Citizens Gas	$ 39,418	$ 38,710	$ 708
Steam	14,309	15,100	(791)
Chilled Water	4,105	4,242	(137)
Oil	1,338	1,257	81
Resources	246	297	(51)
Total Other O&M	$ 59,416	$ 59,606	$ (190)

The Citizens Gas increase is primarily due to increased pension and health insurance costs of $2.2 million, offset by lower wage and maintenance costs of $1.5 million. The Steam decrease is primarily due to reduced plant and distribution maintenance costs of $1.0 million, offset by increased pension costs of $0.2 million. The Chilled Water decrease is primarily due to reduced operating and maintenance costs of $0.3 million, offset by increased benefit costs of $0.2 million.

General and Administrative (G&A) – decrease of $0.1 million. G&A by business segment for 2010 versus 2009 is as follows (in thousands):

	2010	2009	Change
Citizens Gas	$ 42,617	$ 43,037	$ (420)
Steam	8,036	7,936	100
Chilled Water	3,193	3,474	(281)
Oil	378	258	120
Resources	4,806	4,437	369
Total G&A	$ 59,030	$ 59,142	$ (112)

The Citizens Gas decrease is primarily due to lower uncollectible expense of $4.5 million, corporate support costs of $1.2 million and other miscellaneous costs of $1.0 million, offset by higher wage and benefit costs of $6.3 million. The Steam increase is primarily due to higher corporate support costs of $0.4 million, offset by reduced uncollectible expense of $0.3 million. The Chilled Water decrease is primarily due to reduced uncollectible expense. The Oil increase is primarily due to higher corporate support costs. The Resources increase is primarily due to higher CLG expenses, previously reported in the Chilled Water Division, of $1.3 million and Resources – Parent expenses for corporate support costs of $0.3 million, offset by lower CMS expenses of $0.9 million due to the 2009 sale of CMS assets and Resources – Parent other G&A costs of $0.3 million.

Depreciation and Amortization – decrease of $0.1 million. Depreciation and Amortization by business segment for 2010 versus 2009 is as follows (in thousands):

	2010	2009	Change
Citizens Gas	$ 23,146	$ 21,024	$ 2,122
Steam	4,420	6,098	(1,678)
Chilled Water	5,355	5,555	(200)
Oil	410	436	(26)
Resources	372	640	(268)
Total Depreciation & Amortization	$ 33,703	$ 33,753	$ (50)

Steam decreased by $1.4 million due to decreased customer contract amortization compared to 2009 primarily due to a $1.9 million charge taken in 2009 (see Notes 1.L and 1.M of the consolidated financial statements for additional information on the impairment and amortization of intangible customer contracts, respectively). The decrease in Resources of $0.3 million is due to the sale of CMS on May 1, 2009. The remaining net increase in depreciation and amortization of $1.6 million is due to capital additions and changes in depreciation rates resulting from a depreciation study as of December 31, 2009.

Taxes – decrease of $4.0 million. Taxes by business segment for 2010 versus 2009 are as follows (in thousands):

	2010	2009	Change
Citizens Gas	$ 7,313	$ 11,081	$ (3,768)
Steam	1,099	1,430	(331)
Chilled Water	1,704	1,401	303
Oil	66	88	(22)
Resources	266	459	(193)
Total Taxes	$ 10,448	$ 14,459	$ (4,011)

The decrease in Citizens Gas taxes is primarily due to reduced property taxes of $2.2 million (including a refund of $0.8 million) and utility receipts tax related to lower billed revenue of $1.6 million. The decrease in Steam taxes is primarily due to utility receipts tax related to lower billed revenue of $0.2 million and reduced property taxes of $0.1 million. The increase in Chilled Water is primarily due to an increase in property taxes of $0.2 million and franchise taxes of $0.1 million. The decrease in Resources taxes is primarily due to lower income taxes of $0.1 million for Westfield Gas and CMS property taxes of $0.1 million in 2009.

Other Income (Expense), Net

Other Income (Expense), Net – decrease of $7.5 million. Interest income decreased $0.5 million in 2010 to $0.6 million from $1.1 million in 2009 primarily due to lower interest rates. Other, net expense increased $7.0 million to $9.6 million expense in 2010 from $2.6 million expense in 2009. This was primarily due to expensing acquisition costs related to the City of Indianapolis' water and wastewater systems of $6.6 million in 2010 in accordance with new FASB guidance (see Liquidity discussion below and Notes 1.R and 11.b of the consolidated financial statements for additional information on acquisition costs). Also included is a $0.2 million write-off of Westfield Gas rate case preparation costs not recoverable through gas rates and $0.1 million for increased community investment and brand advertising expenses in 2010 and a $0.1 million increase for accounting adjustments related to the sale of CMS in 2009.

Equity In Earnings Of Affiliates

Equity in Earnings of Affiliates – increase of $4.2 million. Equity in Earnings of Affiliates increased $4.2 million to $4.9 million in 2010 from $0.7 million in 2009. The $4.2 million increase was primarily due to a $12.9 million write down of an investment held by ProLiance Energy, LLC (ProLiance), the gas marketing affiliate of Resources, in 2009 (see Note 3 of the consolidated financial statements for further details). Partially offsetting this year over year increase was an $8.7 million decrease due to lower 2010 net margin of $7.9 million from ProLiance's traditional lines of business, increased ProLiance non-margin expenses of $0.7 million and lower other affiliate earnings of $0.1 million.

Interest Charges

Interest Charges – decrease of $1.3 million. Interest charges decreased $1.3 million to $26.7 million in 2010 from $28.0 million in 2009 primarily due to lower interest rates for Citizens Gas' tax-exempt commercial paper, decreased short-term borrowings for Citizens Gas and lower interest paid on customer deposits.

Discontinued Operations

Loss from Discontinued Operations (Manufacturing Division) – decrease of $2.6 million. Loss from Discontinued Operations improved $2.6 million to $4.6 million in 2010 from $7.2 million in 2009. The $2.6 million improvement is primarily due to increased remediation insurance proceeds of $1.5 million and reduced wages, employer benefit costs, decommissioning activities and administrative expenses of $1.1 million in 2010 compared to 2009. See Note 9 of the consolidated financial statements for additional information on the discontinuation of the Manufacturing Division.

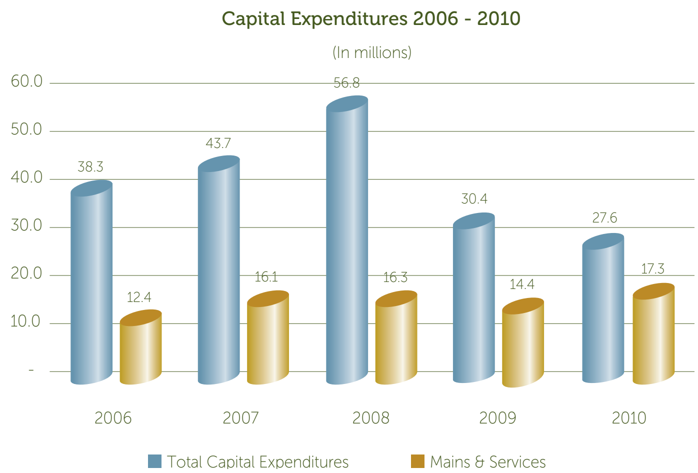
Liquidity And Capital Resources

Capital Spending and Debt

The Trust utilizes long-term debt, short-term debt and internally generated funds to meet capital investment and working capital needs. In 2010, capital expenditures, on an accrual basis, decreased to $27.6 million from $30.4 million in 2009. This decrease of $2.7 million is summarized as follows (in thousands):

	2010	2009	Change
Citizens Gas	$ 23,167	$ 23,100	$ 67
Steam	3,355	4,690	(1,335)
Chilled Water	844	2,422	(1,578)
Oil	195	51	144
Resources	68	90	(22)
Total Capital Expenditures	$ 27,629	$ 30,353	$ (2,724)

Citizens Gas continued to invest heavily in mains and services to maintain its commitment to modernization of its underground gas distribution system. In addition to the investment in Citizens Gas, the Trust continued to invest in growth at Citizens Thermal, but at a lower level than in 2009.



Citizens Gas has approximately $321.6 million of long-term debt outstanding and Citizens Thermal has approximately $144.9 million of long-term debt outstanding, net of current maturities and unamortized bond premium and discount. In addition to the long-term debt, Citizens Gas has $50.0 million in commercial paper outstanding. The seasonal nature of Citizens Gas creates short-term working capital needs to fund gas inventory purchases in the summer months and accounts receivable during the heating season. Citizens Gas has $50.0 million of working capital lines of credit available on an annual basis to fund such needs. As of September 30, 2010, Citizens Gas had no amount outstanding under such lines of credit, so the entire amount remained available as specified above. Citizens Thermal has a $10.0 million working capital line of credit available to fund such needs. As of September 30, 2010, Citizens Thermal had no amount outstanding under such line of credit, so the entire amount remained available as specified above.

On March 12, 2010, Citizens Gas issued $60.0 million of City of Indianapolis, Indiana, Gas Utility Distribution System, Second Lien Revenue Refunding Bonds, Series 2010A, due 2019 to 2024. This series was issued at a premium of $4.1 million. The new debt was issued as fixed rate serial bonds ranging from a coupon rate of 4 percent for bonds maturing in 2019 and 2020 increasing to 5 percent for bonds maturing thereafter. The proceeds of this series were used to refund the remaining Gas Utility Distribution System First Lien Multi-Mode Revenue Refunding Bonds, Series 1998A in the aggregate principal amount of $62.9 million.

On March 12, 2010, Citizens Thermal issued $11.0 million of City of Indianapolis, Indiana, Thermal Energy System, First Lien Revenue Refunding Bonds, Series 2010A, due 2010 to 2029. This series was issued at a premium of $0.3 million. The new debt was issued as fixed rate serial bonds through 2020 and two term bonds maturing in 2025 and 2029. The serial bonds were issued with coupons ranging from 2 percent for bonds maturing in 2010, increasing to 3 percent for bonds maturing through 2016, and 4 percent for maturities thereafter. Coupon rates for both of the term bonds are 5 percent. The proceeds of this series were used to refund $10.1 million of interim indebtedness.

On September 15, 2010, Citizens Thermal entered into a $30.0 million, 2 year, variable interest construction loan with J.P. Morgan Chase, the proceeds of which will be used for construction of steam and chilled water facilities at a new customer's location. At September 30, 2010, the amount borrowed was $0.7 million.

The Trust has certain trust indentures associated with the Gas Utility System (GUS) and Gas Utility Distribution System (GUDS) that specify in the event that debt service requirements cannot be met, the Trust shall take any appropriate action under the law and within its power, to generate income and revenues of the GUS and GUDS in the amounts required to satisfy the requirements for later fiscal years. These actions include, but are not limited to, the filing of a proceeding seeking additional revenues or other relief before the Indiana Utility Regulatory Commission. At September 30, 2010, the Trust was in compliance with all debt covenants.

Acquisition of Water and Wastewater Assets

See Notes 1.N.a and 11.b of the consolidated financial statements for additional information on the Acquisition of Water and Wastewater Assets.

Regulatory Developments

See Notes 1.N.a and 12 of the consolidated financial statements for additional information on Regulatory Developments.

Derivatives And Hedging

The Trust has entered into certain derivative and hedging transactions in 2010 and 2009, respectively. These transactions, accounted for using FASB guidance, are used by Citizens Gas to hedge rising natural gas prices. Through a combination of fixed-price purchases, caps, collars and storage, Citizens Gas hedges approximately 80 percent of its anticipated system supply gas purchases (see Note 10 of the consolidated financial statements for further details).

Consolidated Statements of Operations

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

		Fiscal Year Ended September 30, 2010	2009
Operating Revenues:	Utility operating revenues	$ 395,571	$ 514,874
	Non-utility operating revenues	45,133	40,351
	Total operating revenues	440,704	555,225
Operating Expenses:	Cost of Goods Sold:		
	Utility cost of goods sold	232,801	347,263
	Non-utility cost of goods sold	11,689	11,066
	Total cost of goods sold	244,490	358,329
	Other operations and maintenance	59,416	59,606
	General and administrative	59,030	59,142
	Depreciation and amortization	33,703	33,753
	Taxes	10,448	14,459
	Total operating expenses	407,087	525,289
Total Operating Income		33,617	29,936
Other Income (Expense)-Net:	Interest income	595	1,158
	Other	(9,669)	(2619)
	Total other income (expense)	(9,074)	(1,461)
Income Before Equity in Earnings of Affiliates and Interest Charges		24,543	28,475
Equity in Earnings of Affiliates		4,892	676
Interest Charges:	Interest on long-term debt	23,846	24,469
	Other interest including discount amortization	2,834	3,582
	Total interest charges	26,680	28,051
Income from Continuing Operations		2,755	1,100
Loss from Discontinued Operations		(4,587)	(7,214)
Net Loss		$ (1,832)	$ (6,114)

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

Consolidated Statements of Financial Position

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

	Assets	At September 30, 2010	2009
Property, Plant and Equipment:	Utility plant, at original cost	$ 768,361	$ 747,854
	Accumulated depreciation	410,750	394,041
		357,611	353,813
	Non-utility plant, at original cost	69,555	68,315
	Accumulated depreciation	18,169	15,656
		51,386	52,659
	Construction work in progress	15,640	19,240
		424,637	425,712
Intangibles:	Thermal customer contracts, net	106,809	111,794
Investments:	Bond retirement funds	28,999	25,350
	Investment in affiliates	75,005	97,288
	Other	4,895	6,619
		108,899	129,257
Current Assets:	Cash and cash equivalents	99,797	83,735
	Short-term investments	2,941	-
	Accounts receivable, less allowance for doubtful accounts of $1,237 and $2,373, respectively	25,697	28,315
	Accrued utility revenue	4,122	4,009
	Natural gas in storage	77,110	82,678
	Materials and supplies	7,980	8,147
	Recoverable gas and fuel costs	1,631	-
	Prepayments and deposits	3,477	2,852
	Current assets held for sale and discontinued operations	4,476	6,687
		227,231	216,423
Deferred Charges and Other Non-Current Assets:	Bond issuance cost, net	21,575	23,199
	Other deferred charges	18,452	15,758
	Non-current assets held for sale and discontinued operations	1,965	1,864
		41,992	40,821
	Total Assets	$ 909,568	$ 924,007
	Capitalization and Liabilities		
Capitalization and Non-Current Liabilities:	Retained earnings	$ 252,492	$ 255,185
	Accumulated other comprehensive income/(loss)	(130,095)	(106,087)
	Long-term debt (excluding current maturities)	466,522	471,132
	Retirement benefit and other long-term liabilities	106,442	78,799
	Non-current liabilities directly related to assets held for sale and discontinued operations	47, 238	42,786
		742,599	741,815
Current Liabilities:	Current maturities of long-term debt	17,105	19,745
	Short-term borrowings	50,000	56,700
	Accounts payable and accrued expenses	65,762	62,692
	Accrued taxes	10,057	13,505
	Customer deposits and advance payments	12,575	13,780
	Customer benefits	1,058	1,003
	Refundable gas and fuel costs	8,802	13,053
	Other	118	12
	Current liabilities directly related to assets held for sale and discontinued operations	1,492	1,702
		166,969	182,192
Commitments and Contingencies (Note 11):			
	Total Capitalization and Liabilities	$ 909,568	$ 924,007

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

Consolidated Statements of Cash Flows

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

	Fiscal Year Ended September 30, 2010	2009
Operating Activities:		
Net loss	$ (1,832)	$ (6,114)
Depreciation and amortization	35,602	36,076
Amortization of bond discount	1,087	990
Distributions from affiliates, net of equity in earnings	22,948	10,920
Allowance for doubtful accounts	1,136	(235)
Changes in operating assets and liabilities:		
Accounts receivable and accrued utility revenue	1,367	12,154
Natural gas in storage	5,567	55,278
Recoverable/refundable gas and fuel costs	(6,392)	34,722
Prepayments and deposits	(624)	(168)
Other current assets	167	(466)
Accounts payable and accrued expenses	(3,039)	(27,794)
Retirement benefit and other liabilities	27,643	50,173
Net change in deferred charges	(29,283)	(64,937)
Other operating activities	106	(387)
Net cash provided by operating activities of discontinued operations	6,352	17,082
Net cash provided by operating activities	60,805	117,294
Investing Activities:		
Construction expenditures	(26,174)	(29,490)
Purchase of investment securities	(45,508)	(111,609)
Sale and maturity of investment securities	38,918	98,765
Other investing activities	2,269	(4,125)
Net cash used by investing activities	(30,495)	(46,459)
Financing Activities:		
Proceeds from bank line of credit	3,300	62,500
Repayment of bank line of credit	(10,000)	(73,800)
Principal payments of long-term debt and bond refunding	(80,684)	(47,150)
Proceeds from bond refunding	75,393	44,349
Bond issuance costs	(1,452)	(754)
Customer benefits arising from nonregulated operations distributable to gas customers	(805)	(1,377)
Net cash used by financing activities	(14,248)	(16,232)
Net change in cash and cash equivalents	16,062	54,603
Cash and cash equivalents at beginning of fiscal year	83,735	29,132
Cash and cash equivalents at end of fiscal year	$ 99,797	$ 83,735

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

Consolidated Statements of Equity

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

	Retained Earnings	Accumulated Other Comprehensive Loss	Total
September 30, 2008	$ 263,166	$ (36,415)	$ 226,751
Comprehensive income (loss):			
Net loss	(6,114)		(6,114)
Comprehensive loss of unconsolidated investment		(6,634)	
Retirement benefit liability changes		(63,038)	(69,672)
Total comprehensive income (loss)			(75,786)
Adjustment for the adoption of measurement date provision	(1,006)		(1,006)
Customer benefit distributions	(861)		(861)
September 30, 2009	$ 255,185	$ (106,087)	$ 149,098
Comprehensive income (loss):			
Net loss	$ (1,832)		$ (1,832)
Comprehensive income of unconsolidated investment		$ 593	
Retirement benefit liability changes		(24,601)	(24,008)
Total comprehensive income (loss)			(25,840)
Customer benefit distributions	(861)		(861)
September 30, 2010	$ 252,492	$ (130,095)	$ 122,397

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

Notes To Consolidated Financial Statements

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

1. Summary Of Significant Accounting Policies

A. Nature Of Operations:

Citizens Energy Group (the Trust or Company), is the trade name under which the City of Indianapolis, by and through the Board of Directors for Utilities of the Department of Public Utilities, as successor trustee of a Public Charitable Trust, provides energy services to customers in and around Marion County, Indiana. The consolidated financial statements include five operating segments: Citizens Gas, Steam, Chilled Water, Oil and Citizens Resources (Resources). Resources includes affiliate joint venture interests, the most significant of which is ProLiance Holdings, LLC (ProLiance) (see Note 3) as well as several wholly-owned subsidiaries, one of which (Westfield Gas) is operated as a regulated natural gas distribution utility. The former Manufacturing business segment is now reported as Discontinued Operations. The Trust's rates and charges for gas and steam service are regulated by the Indiana Utility Regulatory Commission (IURC). The accounting records conform to the accounting standards prescribed by the Federal Energy Regulatory Commission and generally accepted accounting principles in the United States of America. Intercompany transactions have been eliminated in consolidation.

B. Use Of Estimates:

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

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

Construction costs include costs directly incurred plus overhead allocation relating to payroll, administrative and general costs. Depreciation on gas, steam and chilled water plant is computed on a straight-line basis over the estimated remaining useful lives of the various classes of depreciable plant in service. The Trust periodically performs a depreciation rate study that includes a review of depreciable plant remaining useful lives. Depreciation on oil plant is computed on a straight-line basis over the projected productive lives of the oil wells.

Maintenance and repairs of property units are charged to expense as incurred. The Trust utilizes the composite method of depreciation. Accordingly, the original cost of depreciable property and equipment retired or replaced and the cost of removal, less salvage, are charged to accumulated depreciation.

Plant, at original cost, at September 30:

	(In Thousands)		
	2010	2009	Useful Lives
Utility:			
Distribution	**$ 548,691**	$ 534,024	15 – 65 years
Gas storage	**84,666**	84,033	33 – 60 years
Production	**41,834**	36,639	50 – 75 years
Transmission	**36,193**	35,662	22 – 60 years
General plant	**56,977**	57,496	5 – 30 years
	$ 768,361	$ 747,854	
Non-utility:			
Distribution	**$ 26,608**	$ 25,458	40 – 55 years
Production	**42,426**	42,327	5 – 40 years
General plant	**521**	530	5 – 25 years
	$ 69,555	$ 68,315	

Depreciation expense was $28.6 million and $27.2 million in 2010 and 2009, respectively. Depreciation expense as a percentage of original depreciable cost is as follows:

	2010	2009
Citizens Gas	**3.5%**	3.2%
Steam	**4.8%**	5.6%
Chilled Water	**3.6%**	4.0%
Oil	**20.3%**	20.3%

Allowance for Funds Used During Construction (AFUDC) represents the cost of borrowed funds used for construction purposes and is charged to major construction projects during the construction period with a corresponding credit to "Other Interest Charges". The total amount of AFUDC capitalized by the Trust was $0.1 million and $0.3 million in 2010 and 2009, respectively.

D. Revenue Recognition:

Revenue is recorded when earned, either when the product is delivered or when services are performed. Citizens Gas customer billings are rendered on a cycle basis on each working day throughout the month. Westfield Gas Corporation (Westfield Gas) customer billings for the Residential rate class are rendered monthly on or near the 10th calendar day of each month, while all remaining Westfield Gas rate classes are billed near the end of the calendar month. The estimated revenue for gas delivered since the last customer billing dates to month-end is accrued based on actual demand data for the calendar month. The accrual for unbilled revenues is reversed in the subsequent accounting period when meters are actually read and customers are billed. Meter readings are taken as of month-end for Steam and Chilled Water Division customers, with billings rendered as of month-end for all such customers.

E. Inventory:

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

F. Taxes:

The Trust is subject to payroll, property, utility receipts, franchise, and other miscellaneous taxes, but as a Public Charitable Trust, is not subject to federal or state income taxes. Westfield Gas is subject to federal and state income taxes in accordance with FASB guidance as noted in Note 1.R. Utility receipts taxes are included in rates charged to customers. Accordingly, the Company includes these taxes received as a component of operating revenues, which totaled $5.3 million and $7.0 million in 2010 and 2009, 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 the Trust's Price Volatility Mitigation Policy (see Note 10), and the amounts of gas costs recovered by Citizens Gas and Westfield Gas through rates is deferred and recovered (or refunded) through gas cost adjustments (GCA) permitted by the IURC. Citizens Gas is authorized to change its GCA factors quarterly as a result of changes in market prices. Citizens Gas is authorized to utilize a flex mechanism in its quarterly filings to change its GCA factors within a fixed, known and measurable range, on a monthly basis, through a Monthly Price Update as a result of changes in market prices. Westfield Gas is authorized to change its GCA factors quarterly as a result of changes in market prices. The difference between actual fuel costs and the amounts of fuel costs recovered by the Steam Division through rates is deferred and recovered (or refunded) through the fuel adjustment cost (FAC) permitted by the IURC. The Steam Division is authorized to change its FAC factors each quarter as a result of changes in market prices.

H. Bond Issuance Costs:

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

I. Cash And Cash Equivalents:

For purposes of the Consolidated Statements of Financial Position and Cash Flows, the Trust considers investments purchased with a maturity of three months or less to be cash equivalents. The carrying value equals fair value for these financial instruments. Included in cash and cash equivalents on the Consolidated Statements of Financial Position are money market funds of $88.4 million and $80.0 million at September 30, 2010 and 2009, respectively.

J. Supplemental Disclosures Of Cash Flow Information:

	(In Thousands)	
	2010	2009
Cash paid during the year for:		
Interest	**$ 25,452**	$ 25,364
Non-cash investing activities were as follows:		
Accrued construction work-in-progress	**$ 1,455**	$ 863
Comprehensive gain (loss) on investment in affiliates	**(593)**	(6,634)
Unrealized gains (losses) on derivatives, net	**511**	(6,387)
Total non-cash investing activities	**$ 1,373**	$ (12,158)

K. Fair Value Measurements:

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

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

The following table presents the financial assets and liabilities measured at fair value on a recurring basis, based on the hierarchy as of September 30, 2010 and 2009 (in thousands):

	2010 Fair Value Measurements Using		
Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:			
Cash equivalents	**$ 88.434**	$ -	$ -
Bond retirement funds	**28,999**	-	-
Derivatives	**468**	-	-
Total financial assets measured at fair value	**$ 117,901**	$ -	$ -

Description	2009 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)
Financial Assets:			
Cash and cash equivalents	$ 83,735	$ -	$ -
Bond retirement funds	25,350	-	-
Derivatives	3,002	-	-
Total financial assets measured at fair value	$ 112,087	$ -	$ -

The fair values of the bond retirement funds and derivative instruments have been determined using quoted prices in an active market. The fair value of derivatives at September 30, 2010 was $0.5 million with a notional dollar value of $1.2 million. The fair value of derivatives at September 30, 2009 was $3.0 million with a notional dollar value of $3.2 million. Gains/losses and fees associated with these derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. See additional disclosure at Note 10.

Management has estimated the fair value of the outstanding debt securities based on the coupons of the outstanding bonds and the current market yields. Management established the corresponding price to the call date as well as the price to maturity. The fair value was determined based on the lower of these two prices. Using this method, the estimated fair value of the debt is $517.2 million and $515.1 million at September 30, 2010 and 2009, respectively versus carrying value of $483.6 million and $490.9 million at September 30, 2010 and 2009, respectively.

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

L. Asset Impairment:

Long-lived assets and certain amortizing intangible assets held and used by the Trust are reviewed for impairment using undiscounted cash flows, whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Measurement of an impairment loss is based on the discounted value cash flows related to these specific assets or asset group. No impairments were recorded in 2010 or 2009. The Board of Directors voted on April 11, 2007, to cease operations of Indianapolis Coke (Manufacturing Division) as soon as reasonably practical. Manufacturing Division (reported as Discontinued Operations) plant assets were $1.9 million and $2.1 million at September 30, 2010 and 2009, respectively, representing the estimated remaining salvage value of the plant. See additional disclosure at Note 9.

M. Intangible Assets:

The customer contracts intangibles are finite lived and amortized on a straight-line basis over their expected useful lives which range from 20 to 30 years other than the contract discussed below. The gross value of intangible customer contracts was $129.7 million at September 30, 2010 and 2009. Accumulated amortization for all intangible customer contracts was $22.9 million and $17.9 million at September 30, 2010 and 2009, respectively. Amortization expense of such assets was $5.0 million and $6.4 million in 2010 and 2009, respectively. Estimated aggregate amortization expenses for each of the five succeeding fiscal years are as follows:

	(In Thousands)
2011	$ 4,993
2012	4,667
2013	4,433
2014	4,361
2015	4,222

On June 1, 2009, one Citizens Thermal customer associated with a customer contract intangible asset announced that its Indianapolis plant would be closed or sold by December, 2011. Consequently, the Trust performed an impairment analysis and recorded a charge of $1.9 million in June 2009 to amortization expense. The value at September 30, 2010 and 2009, of the related customer contract is $1.6 million and $2.3 million, respectively, representing the estimated remaining discounted cash flows. The remaining carrying amount of the related customer contract will be amortized over the remaining useful life.

N. Regulatory Developments, Assets And Liabilities:

a. Regulatory Developments

Citizens Gas

The most recent Order by the IURC authorizing Citizens Gas to adjust its rates and charges in order to increase its gas utility operating revenues was issued on September 17, 2008. Citizens Gas implemented the IURC-approved rate increase and the approved changes to its general terms and conditions for gas utility service effective September 19, 2008. See Note 12 for additional information on Citizens Gas regulatory developments.

Westfield Gas

On December 31, 2008, Westfield Gas filed a petition and supporting testimony with the IURC requesting approval of a new schedule of rates and charges and certain other relief. On March 10, 2010, the IURC issued an Order approving an increase to Westfield Gas's operating revenues of $0.6 million or 10.34 percent. The IURC also approved Westfield Gas's proposed Energy Efficiency Adjustment Rider. The Energy Efficiency Adjustment Rider (a Decoupling mechanism) will allow the utility to recover its non-gas costs when customer gas usage declines, which aligns the utility's and customers' interests to reduce gas usage through energy efficiency measures. The IURC also authorized the funding and implementation of a portfolio of energy efficiency programs that will be administered by an oversight board which includes the utility consumer counselor. The IURC authorized an initial level of funding of less than $0.1 million for energy efficiency programs, which will increase by 15 percent each year. Westfield Gas was also authorized to recover its unaccounted for gas costs, up to a maximum of 1.26 percent, and the gas cost component of net write-offs at a fixed ratio of 0.32 percent of gas costs through its gas cost adjustment charge. The IURC Order also approved new terms and conditions for Westfield Gas's provision of gas utility service, authorized Westfield Gas to recover previously incurred costs that had been deferred related to energy efficiency initiatives, approved new depreciation accrual rates, directed Westfield Gas to establish a commercial and industrial transportation rate tariff and approved a Service Agreement between Westfield and the Trust.

Citizens Thermal Steam

On November 2, 2009, Citizens Thermal filed a petition with the IURC requesting approval of a new schedule of rates and charges to increase its steam utility operating revenues and certain changes to its general terms and conditions for steam utility service. On March 19, 2010, Citizens Thermal, the Indiana Office of Utility Consumer Counselor and certain industrial customers filed a settlement agreement with the IURC, in which the parties agreed that Citizens Thermal should be authorized to increase its operating revenues by $6.2 million or 9.2 percent and implement the proposed changes to its general terms and conditions for steam utility service. Additionally, under the settlement agreement, the settling parties agreed that the steam service contract between Citizens Thermal and National Starch and Chemical Company would be extended for two years from its current expiration date of February 15, 2011. On May 11, 2010, the IURC issued an Order approving the settlement agreement, with one modification described below, and authorized Citizens Thermal to implement the increase agreed to by the settling parties and the changes Citizens Thermal proposed to its general terms and conditions for steam utility service. The IURC directed Citizens Thermal to file a separately docketed proceeding regarding approval of any extension to the steam service contract between Citizens Thermal and National Starch. Citizens Thermal implemented the IURC-approved rate increase and general terms and conditions for steam utility service effective May 17, 2010. Citizens Thermal expects to file a petition seeking approval of an extension to the National Starch steam service contract in the first quarter of fiscal year 2011. See Note 12 for additional information on Citizens Thermal Steam regulatory developments.

Water and Wastewater Systems

On August 11, 2010, Citizens Energy Group, CWA Authority, Inc., the City of Indianapolis (City) and its Department of Waterworks and Sanitary District filed a petition seeking approval of the acquisitions of the assets of the water utility currently owned and operated by the Department of Waterworks and the assets of the wastewater utility currently owned and operated by the Sanitary District by Citizens Energy Group and CWA Authority, Inc., respectively. CWA Authority, Inc. is an Indiana nonprofit corporation formed by Citizens Energy Group, the City and its Sanitary District pursuant to an Interlocal Cooperation Agreement entered into under Indiana's Interlocal Cooperation Statute. The petition seeks approval of the proposed acquisition and other related requests, including authority for Citizens Energy Group to adopt the rates and charges approved by the IURC for the water utility in effect at the time of the closing of the acquisitions and authority for CWA Authority, Inc. to adopt the rates and charges approved by the City-County Council of Indianapolis and Marion County for the wastewater utility in effect at the time of the closing. Citizens Energy Group does not expect the IURC to issue a final order in the case until the second or third quarter of fiscal year 2011.

b. Regulatory Assets and Liabilities

The Company's rates are designed to recover the costs of providing service, thus certain items that would normally be reflected in the Consolidated Statements of Operations are deferred on the Consolidated Statements of Financial Position. Regulatory assets represent probable future revenues associated with certain incurred costs, which will be recovered from customers through the rate-making process. Regulatory assets are charged to earnings as collection of the cost in rates is recognized or when future recovery is no longer probable. Conversely, regulatory liabilities represent future reductions in revenues associated with amounts that are to be credited to customers through the rate-making process. The balance of these deferred costs was a regulatory asset of $12.6 million and $12.4 million at September 30, 2010 and 2009, respectively, and a regulatory liability of $14.6 million and $20.2 million at September 30, 2010 and 2009, respectively. The Trust continuously monitors changes in market and regulatory conditions and considers 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, 2010 and 2009 (in thousands):

	2010	2009	Recovery/Refund Period	Statement of Financial Position Location
Deferred Regulatory Proceeding Costs	$ 447	$ 840	various	Other deferred charges
Deferred Post-Retirement Benefit Costs	1,804	2,255	through 2014	Other deferred charges
Price Volatility Mitigation Program	1,631	2,264	1 – 13 months	Recoverable gas and fuel costs
Decoupled Sales Component*	7,296	6,028	1 – 15 months	Other deferred charges
Regulatory Credit for Remediation	390	84	not yet refunded	Other deferred charges
Other	1,033	957	various	Other deferred charges
Total Regulatory Assets	$ 12,601	$ 12,428		

Regulatory liabilities were comprised of the following at September 30, 2010 and 2009 (in thousands):

	2010	2009	Recovery/Refund Period	Statement of Financial Position Location
Deferred Fuel Tracking Adjustments	$ 8,802	$ 15,316	1 – 18 months	Refundable gas and fuel costs
Regulatory Credit for Remediation	5,702	4,542	not yet refunded	Accts. payable and accr. exp.
Other	126	329	various	Accts. payable and accr. exp.
Total Regulatory Liabilities	$ 14,630	$ 20,187		

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

O. Software Developed For Internal Use:

Internal and external costs incurred during the preliminary project stage associated with the development of internal use software are expensed as incurred. External direct costs of materials and services, internal direct payroll and payroll-related costs, and interest costs for the use of funds incurred during the application development stage associated with developing or obtaining internal use software are capitalized. Capitalized software costs were $0.6 million and $8.9 million in 2010 and 2009, respectively. Internal and external training and maintenance costs incurred during the post-implementation stage associated with the development of internal use software are expensed as incurred.

P. Comprehensive Income (Loss):

Comprehensive income (loss) is primarily a measure of all changes in equity of an enterprise which result from the transactions or other economic events during the period. This information is reported in the Consolidated Statements of Equity. The Trust's components of accumulated other comprehensive income (loss) include the impact of pension and other post-retirement benefits and its share of ProLiance and Heartland Gas Pipeline, LLC (Heartland) other comprehensive income. The Trust 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:

The Trust's Customer Benefit Distribution policy establishes a mechanism that allows for the distribution to Citizens Gas customers of certain prior period earnings from non-regulated businesses. The Board of Directors (Board) for the Trust determines the amount of funds, if any, from non-regulated businesses to be distributed. The Board strives to employ its capital to achieve, in its judgment, an appropriate balance between short-term benefits (e.g., lower gas bills, community investment, etc.) and long-term benefits (e.g., invest to create economic benefits for the future). In September 2009, $0.9 million was authorized and approved for distribution as a result of fiscal year 2009 operations and was distributed in calendar year 2010. In September 2010, $0.9 million was authorized and approved for distribution as a result of fiscal year 2010 operations and will be distributable in calendar year 2011.

R. New Accounting Guidance:

On October 1, 2009, the Trust adopted FASB guidance that includes the fundamental requirements that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. This guidance defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This guidance establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Trust has expensed $6.6 million in fiscal 2010 related to a potential acquisition (see additional disclosure at Note 11.b). In cases where acquisition costs are deemed probable for recovery under regulatory accounting guidance, the Trust will defer such costs until the acquisition is either completed and capitalized as a part of the new regulated business, or becomes improbable of occurring and expensed.

FASB issued guidance which replaces the quantitative-based risks and rewards calculation for determining if an enterprise has a controlling financial interest in a variable interest entity (VIE) with an approach focused on identifying if the enterprise has the power to direct the activities of the VIE that most significantly impacts the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. This guidance also requires an additional reconsideration event when determining whether an entity is a VIE when any changes in facts and circumstances occur such that the holders of the equity investment lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of the VIE. The guidance also requires additional disclosures about the enterprise's involvement in a VIE. This guidance is effective as of the beginning of the reporting entity's first annual reporting period that begins after November 16, 2009. The Trust is currently assessing the impact this guidance will have on its consolidated financial statements for fiscal year 2011.

2. Bond Retirement Funds

Under the terms of various trust indentures, the Trust is required to maintain bond retirement funds. These bond retirement funds are invested in short-term cash-equivalent securities. Due to the nature of these investments, cost is equal to fair market value of $29.0 million at September 30, 2010, and $25.4 million at September 30, 2009. Gross deposits to the bond retirement fund investments during 2010 and 2009 were $42.6 million and $51.8 million, respectively. There were minimal realized gains or losses associated with the sales of these investments.

3. Investment In Unconsolidated Affiliates

ProLiance, an energy marketing, management services, asset development and operations company, is an affiliation of equal ownership between Resources, the Trust's wholly-owned subsidiary, and Vectren Energy Marketing & Services, Inc., a wholly-owned subsidiary of Vectren Corporation (Vectren), formed in March, 1996. Effective June 1, 2002, Vectren and the Trust agreed to split profits 61 percent and 39 percent, respectively. The Trust purchased $175.6 million and $201.4 million of gas from ProLiance in 2010 and 2009, respectively. In addition, the Trust received less than $0.1 million in 2010 and 2009 from ProLiance as reimbursement for various general and administrative expenses. At September 30, 2010 and 2009, the Trust owed ProLiance $9.8 million and $7.8 million, respectively, for gas purchased. ProLiance is accounted for under the equity method.

Liberty Gas Storage, LLC (Liberty), a joint venture between a subsidiary of ProLiance and a subsidiary of Sempra Energy (SE), is a development project for salt-cavern natural gas storage facilities. ProLiance is the minority member with a 25 percent interest, which it accounts for using the equity method. The project was expected to include 17 Bcf of capacity in its north facility (previously referred to as the Sulfur site, located near Sulfur, Louisiana), and an additional 17 Bcf of capacity in its south facility (previously referred to as the Hackberry site, near Hackberry, Louisiana). As more fully described below, it is now expected that only the south facility will be completed by the joint venture. This facility is expected to provide at least 17 Bcf of capacity. The Liberty pipeline system is currently connected with several interstate pipelines, including the Cameron Interstate Pipeline operated by Sempra Pipelines & Storage, and will connect area liquefied natural gas regasification terminals to an interstate natural gas transmission system and storage facilities. ProLiance's investment in Liberty is $37.1 million at September 30, 2010 and 2009, after reflecting the charge discussed below.

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

Remittance Processing Services, LLC (RPS), an affiliation of equal ownership between Resources and IPALCO Enterprises, Inc. (IPALCO) was formed in August 1996 and began providing services in February, 1997. RPS provides payment processing services for the Trust, IPALCO and others. The Trust paid $0.3 million to RPS for services in 2010 and 2009. The Trust received less than $0.1 million for reimbursement of payroll, employee benefit, and various general and administrative expenses paid on behalf of RPS in 2010 and 2009. RPS is accounted for under the equity method.

Heartland, owns and operates an intrastate natural gas pipeline regulated by the IURC and is an affiliation of equal ownership between Resources and ProLiance. Heartland is accounted for under the equity method. The Trust received storage rental fees from Heartland of $0.6 million and $0.7 million in 2010 and 2009, respectively.

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

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

	2010 ProLiance	2010 Other	2010 Total
Condensed Statement of Operation:			
Revenues	$ 1,533,412	$ 7,201	$ 1,540,613
Operating income	10,157	2,266	12,423
Net income	10,421	1,761	12,182
Condensed Statement of Financial Position:			
Current assets	$ 336,433	$ 3,116	$ 339,549
Non-current assets	59,641	19,887	79,528
	$ 396,074	$ 23,003	$ 419,077
Current liabilities	$ 209,432	$ 1,764	$ 211,196
Non-current liabilities	5,297	6,854	12,151
Equity	181,345	14,385	195,730
	$ 396,074	$ 23,003	$ 419,077

	2009 ProLiance	2009 Other	2009 Total
Condensed Statement of Operation:			
Revenues	$ 1,951,095	$ 7,701	$ 1,958,796
Operating income	30,231	2,631	32,862
Net income (loss)	(752)	2,066	1,314
Condensed Statement of Financial Position:			
Current assets	$ 355,368	$ 2,764	$ 358,132
Non-current assets	61,613	20,483	82,096
	$ 416,981	$ 23,247	$ 440,228
Current liabilities	$ 173,243	$ 2,141	$ 175,384
Non-current liabilities	4,109	7,564	11,673
Equity	239,629	13,542	253,171
	$ 416,981	$ 23,247	$ 440,228

4. Long-Term Debt

Long-term debt consisted of the following:

	(In Thousands) 2010	2009
Gas Utility System Revenue Refunding Bonds Series 1986B, 3.50 % to 4.00 %, due 2013 to 2018	$ 60,560	$ 60,560
Gas Utility Distribution System Revenue Refunding Bonds Series 1998A, 5.00 % to 5.75 %, due 2019 to 2024	-	62,850
Gas Utility Distribution System Series 2008A, Second Lien Multi-Mode Revenue Bonds, 5.00 %, due 2027 to 2030	55,850	55,850
Gas Utility Distribution System Series 2008B, Second Lien Multi-Mode Revenue Bonds, 5.25 %, due 2025 to 2027	55,855	55,855
Gas Utility Distribution System Series 2008C, Second Lien Multi-Mode Revenue Bonds, 4.00 % to 5.25 %, due 2010 to 2021	65,680	67,735
Gas Utility Distribution System Second Lien Revenue Refunding Bonds Series 2009A, 3.00 % to 5.00 %, due 2009 to 2018	29,955	38,080
Gas Utility Distribution System Second Lien Revenue Refunding Bonds Series 2010A, 4.00 % to 5.00 %, due 2019 to 2024	59,975	-
Thermal Energy System Revenue Bonds Series 2001A, 3.80 % to 5.50 %, due 2004 to 2021	86,745	92,060
Thermal Energy System Series 2008, Multi-Mode Revenue Bonds, 5.00 %, due 2022 to 2026	50,070	50,070
Thermal Energy System Revenue Refunding Bonds Series 2010A, 2.00 % to 5.00 %, due 2010 to 2029	10,970	-
Citizens Resources Term Loan, 5.26 %, due 2010	-	4,250
Other Note, Variable Interest Rate (based on LIBOR plus a margin, with a rate of 1.18 % at September 30, 2010), due 2012	700	-
Net Unamortized Bond Premium	7,267	3,567
Current Maturities	(17,105)	(19,745)
Total Long-Term Debt	$ 466,522	$ 471,132

The Gas Utility System (GUS) revenue refunding bonds were issued pursuant to a trust indenture dated as of July 1, 1986. These bonds are secured by and payable from the income and revenues of the entire Trust excluding Citizens Thermal (Steam and Chilled Water) operations. The Gas Utility Distribution System (GUDS) Revenue Refunding Bonds, Series 2008A, Series 2008B, Series 2008C, Series 2009A and Series 2010A, are secured by and payable from the income and revenues of the GUDS as provided for in the respective trust indentures. The GUDS Second Lien Multi-Mode Revenue Bonds, Series 2008A, Series 2008B and Series 2008C were issued on April 10, 2008 (Series A&B) and June 10, 2008 (Series C) in conjunction with the refunding of the Series 2001 and Series 2003A bonds. The Series 2009A bonds were issued on February 17, 2009 in conjunction with a partial refunding of the Series 1998A bonds. The Series 2010A bonds were issued on March 12, 2010 in conjunction with the refunding of the remaining Series 1998A bonds. All of the Second Lien bonds are subordinate to the bonds issued under the 1986 trust indenture.

The City of Indianapolis Thermal Energy System Revenue Bonds, Series 2001A and 2001B were issued pursuant to a Thermal Energy System trust indenture dated January 1, 2001. The 2001B notes were refunded on April 10, 2008, and the 2008 bonds were issued in their place. The Series 2010A bonds were issued on March 12, 2010 in order to refund approximately $10.0 million of interim indebtedness. 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, Citizens Thermal issued $78.1 million of City of Indianapolis, Indiana, 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.

Citizens Resources entered into a $5.0 million, 5 year term loan during 2005 with JP Morgan Chase, the proceeds of which were used for general corporate purposes at Resources. The loan matured on July 15, 2010 and was paid in full at that time.

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

The Trust is obligated to satisfy certain covenants, including meeting certain minimum debt service coverage requirements for each bond issue. The Trust's debt service coverage ratios, as defined by each indenture, are summarized as follows for 2010:

	Minimum Covenant Requirement	2010 Actual
GUS Revenue Refunding Bonds Series 1986B	1.40	16.37
GUDS Revenue Refunding Bonds Series 2008A, Series 2008B, Series 2008C, Series 2009A and Series 2010A Second Lien Multi-Mode Revenue Bonds	1.00	1.86
Thermal Energy System Revenue Bonds Series 2001A, 2008 and 2010A	1.00	1.55

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

	(In Thousands)
2011	$ 17,105
2012	17,940
2013	19,485
2014	19,325
2015	20,220
Thereafter	382,285
Total principal maturities	$ 476,360

5. Short-Term Borrowings

Citizens Gas has $50.0 million in commercial paper outstanding at September 30, 2010 and 2009. The commercial paper has a maximum maturity of 270 days and is to be re-marketed in October and December 2010. 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 $50.0 million of working capital lines of credit available on an annual basis to fund such needs. As of September 30, 2010, Citizens Gas had no amount outstanding under such lines of credit, so the entire amount remained available as specified above. One of the $25.0 million lines of credit was renewed for a three year term in July 2010 with an interest rate of LIBOR plus 1.125 percent. The other $25.0 million line of credit was established for a three year term in August 2010 with an interest rate of LIBOR plus 1.50 percent.

Citizens Thermal reestablished a $10.0 million working capital line of credit with J.P. Morgan Chase in September 2010 to supplement working capital requirements. As of September

30, 2010, Citizens Thermal had no amount outstanding under such lines of credit, so the entire amount remained available as specified above. The $10.0 million Citizens Thermal line of credit has a maturity date of September 2011 and interest rate of LIBOR plus 1.10 percent.

6. Accounts Payable And Accrued Expenses

Accounts payable and accrued expenses as shown in the accompanying Consolidated Statements of Financial Position are comprised of the following components at September 30, 2010 and 2009, respectively:

	(In Thousands)	
	2010	2009
Accounts payable	**$ 13,533**	$ 9,689
Related party payable – ProLiance Holdings	**9,782**	7,755
Salaries and employee benefits	**10,736**	11,130
Customer credit balances	**18,359**	15,457
Post-retirement benefits	**1,914**	1,476
Accrued interest	**8,035**	9,012
Other	**3,403**	8,173
Total accounts payable and accrued expenses	**$ 65,762**	$ 62,692

7. Retirement Plans

The Trust has a non-contributory defined benefit pension plan covering substantially all full time employees. The policy of the Trust is to fund amounts necessary to maintain the plan on an actuarially sound basis. Contributions are intended to provide not only benefits attributed to service-to-date but also for benefits expected to be earned in the future.

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

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

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

The thrift savings plans are defined contribution plans covering most employees. The Trust matches a portion of the contributions made by the employees to the savings plans. The cost to the Trust for its matching portion was $1.2 million and $1.3 million for 2010 and 2009, respectively.

The Trust provides post-retirement health and dental benefits to eligible retirees, which includes payment of up to 80 percent of single and dependent coverage premiums until age 65. The percentage of premiums paid by the Trust is dependent upon the age and years of service at the date the employee retires. The post-retirement benefit plan is unfunded. The Trust accrues the expected cost of post-retirement health benefits during the years in which employees render service. This expense was $3.5 million and $1.1 million for 2010 and 2009, respectively. Between 1994 and 2002, in accordance with an IURC order permitting the deferral and subsequent recovery of costs in excess of pay as you go, the Trust had been deferring such post-retirement benefit costs of Citizens Gas amounting to $5.4 million. Since 2002, Citizens Gas has recovered, through its rates, $3.6 million and $3.1 million through September 30, 2010 and 2009, respectively, leaving a deferred balance of $1.8 million and $2.3 million as of September 30, 2010 and 2009, respectively. Post-retirement benefit costs applicable to the Thermal, Manufacturing and Oil divisions have not been deferred.

The following table sets forth the funded status of the defined benefit pension and other post-retirement benefit plans as of the measurement date, reconciled with the amount reported in the Trust's Consolidated Statements of Financial Position at September 30, 2010 and 2009:

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2010	2009*	**2010**	2009
Projected Benefit Obligation (PBO)	**$ 253,833**	$ 221,870	**$ 31,534**	$ 24,063
Plan assets at fair value	**168,979**	159,124	**-**	-
Funded status	**$ (84,854)**	$ (62,746)	**$ (31,534)**	$ (24,063)
Amounts recognized in the Consolidated Statements of Financial Position consist of:				
Current liability	**$ -**	$ -	**$ (2,509)**	$ (2,027)
Non-current liability	**(84,854)**	(62,746)	**(29,025)**	(22,036)
Net amounts recognized	**$ (84,854)**	$ (62,746)	**$ (31,534)**	$ (24,063)
Amounts in Accumulated Other Comprehensive Income (AOCI) not in costs**:				
Unrecognized transition obligation	**$ -**	$ -	**$ 1,780**	$ 2,369
Unrecognized prior service cost	**3,169**	3,649	**433**	560
Unrecognized actuarial loss	**108,211**	86,701	**8,810**	4,264
Total Amounts in AOCI	**$ 111,380**	$ 90,350	**$ 11,023**	$ 7,193

** The amounts expected to be recognized in 2011 out of AOCI, are $7.1 million for the defined benefit pension plan and $1.2 million for the other benefits, as calculated by the Trust's actuary.

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

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2010	2009*	**2010**	2009
Service cost-benefits attributed to service during the period	**$ 5,152**	$ 4,799	**$ 767**	$ 645
Interest cost	**11,866**	14,496	**1,177**	1,564
Actual loss (gain) on assets	**(11,203)**	7,256	**-**	-
Amortization of transition obligation	**-**	-	**589**	590
Amortization of prior service cost	**479**	877	**127**	161
Amortization of loss	**5,106**	649	**-**	-
Deferred actuarial loss	**(733)**	(22,667)	**(131)**	(60)
Net periodic benefit cost	**10,667**	5,410	**2,529**	2,900
Curtailment expense	**-**	-	**1,413**	-
Early retirement window expense	**-**	-	**-**	10
Adjustment for termination benefit	**-**	-	**1,432**	-
Total expense for the year	**$ 10,667**	$ 5,410	**$ 5,374**	$ 2,910

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

	Defined Benefit Pension		Other Benefits	
	2010	2009	**2010**	2009
Expected long-term rate of return on assets	**7.50%**	7.50%	**-**	-
Discount rates used to value benefit obligations	**5.00%**	5.50%	**4.30%**	5.18%
Discount rates used to value net periodic benefit costs	**5.50%**	6.80%	**5.18%**	7.69%
Increase in participant compensation rates	**3.50%**	3.50%	**-**	-
Healthcare cost trend rate assumed for next year			**9.0%**	8.5%
Rate to which the cost trend is assumed to decline (ultimate trend rate)			**5.0%**	5.0%
Year that the rate reaches ultimate trend rate			**2018**	2016

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

Assets of the defined benefit pension plan consist principally of investments in long-term and intermediate-term fixed income securities and common stocks. The measurement date of September 30 was used to determine the pension cost for the years 2010 and 2009.

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

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

See Note 1.K for additional guidance on fair value measurement.

The Trust's pension plan weighted-average asset allocation as of September 30, 2010 and 2009, by asset category is as follows:

	2010	2009
Equity securities	**60%**	60%
Debt securities	**37%**	38%
Other	**3%**	2%
Total	**100%**	100%

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

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

	Defined Benefit Pension (In Thousands)		Other Benefits (In Thousands)	
	2010	2009	**2010**	2009
Employer contributions	**$ 9,817**	$ 10,728	**$ 1,828**	$ 1,941
Participant contributions	**-**	-	**551**	451
Benefits paid	**11,166**	13,818*	**2,379**	2,392

The Trust expects to contribute, at a minimum, $11.9 million to its pension plan for 2011. 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)
2011	$ 11,023	$ 2,509
2012	11,330	2,574
2013	11,744	2,529
2014	12,344	2,570
2015	13,026	2,648
Years 2016-2020	75,641	13,572

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)	
	2010	2009
Effect on total of service and interest cost	**$ 221**	$ 272
Effect on post-retirement benefit obligation	**2,587**	1,926

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

8. Financial Segment Information

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

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

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

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

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

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

Other includes advertising and philanthropic costs that are not recoverable through rates and are funded by contributions from non-regulated segments. Other also includes expensed acquisition costs relating to potential acquisition activities (see additional disclosures at Notes 1.N.a and 11.b).

The former Manufacturing business segment is now reported as Discontinued Operations.

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

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

Segment information for the years ended September 30, 2010 and 2009 are summarized as follows:

Segment Footnote - Consolidated Statement Of Operations

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

	Citizens Gas	Steam	Chilled Water	Oil	Resources	Other	Disc Ops	**Total**
Operating revenues:								
Utility operating revenues	$ 321,829	$ 69,790	$ -	$ -	$ 3,952	$ -	$ -	**$ 395,571**
Non-utility operating revenues	-	-	37,762	5,218	2,153	-	-	**45,133**
Total operating revenues	321,829	69,790	37,762	5,218	6,105	-	-	**440,704**
Operating expenses:								
Cost of goods sold:								
Utility cost of goods sold	188,040	42,414	-	-	2,347	-	-	**232,801**
Non-utility cost of goods sold	-	-	11,689	-	-	-	-	**11,689**
Total cost of goods sold	188,040	42,414	11,689	-	2,347	-	-	**244,490**
Other operations and maintenance	39,418	14,309	4,105	1,338	246	-	-	**59,416**
General and administrative	42,617	8,036	3,193	378	4,806	-	-	**59,030**
Depreciation and amortization	23,146	4,420	5,355	410	372	-	-	**33,703**
Taxes	7,313	1,099	1,704	66	266	-	-	**10,448**
Total operating expenses	300,534	70,278	26,046	2,192	8,037	-	-	**407,087**
Total operating income (loss)	21,295	(488)	11,716	3,026	(1,932)	-	-	**33,617**
Other income (expense)-net:								
Interest income	516	1	1	2	73	2	-	**595**
Other	128	-	(328)	-	(167)	(9,302)	-	**(9,669)**
Total other income (expense)	644	1	(327)	2	(94)	(9,300)	-	**(9,074)**
Income (loss) before equity in earnings of affiliates and interest charges	21,939	(487)	11,389	3,028	(2,026)	(9,300)	-	**24,543**
Equity in earnings of affiliates	-	-	-	-	4,892	-	-	**4,892**
Interest charges:								
Interest on long-term debt	16,265	3,369	4,049	-	163	-	-	**23,846**
Other interest including discount amortization	2,815	70	(51)	-	-	-	-	**2,834**
Total interest charges	19,080	3,439	3,998	-	163	-	-	**26,680**
Income (loss) from continuing operations	2,859	(3,926)	7,391	3,028	2,703	(9,300)	-	**2,755**
Loss from discontinued operations	-	-	-	-	-	-	(4,587)	**(4,587)**
Net income (loss)	$ 2,859	$ (3,926)	$ 7,391	$ 3,028	$ 2,703	$ (9,300)	$ (4,587)	**$ (1,832)**

Segment Footnote - Consolidated Statement Of Operations

Citizens Energy Group and Subsidiary, Indianapolis, Indiana
(In Thousands)
For Fiscal Year Ended September 30, 2009

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

Segment Footnote - Consolidated Statement Of Financial Position

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

	Citizens Gas	Steam	Chilled Water	Oil	Resources	Other	Disc Ops	**Total**
Assets								
Property, Plant and Equipment	$ 311,872	$ 51,027	$ 52,293	$ 957	$ 8,488	$ -	$ -	**$ 424,637**
Intangibles	-	25,603	81,206	-	-	-	-	**106,809**
Investments	18,842	5,440	5,185	-	77,432	2,000	-	**108,899**
Current Assets	158,876	13,609	9,052	1,216	36,562	3,440	4,476	**227,231**
Deferred Charges and Other Non-Current Assets	34,766	2,135	3,047	79	-	-	1,965	**41,992**
Total Assets	$ 524,356	$ 97,814	$ 150,783	$ 2,252	$ 122,482	$ 5,440	$ 6,441	**$ 909,568**
Capitalization and Liabilities								
Retained Earnings and Accumulated OCI	$ (27,660)	$ 7,276	$ 59,903	$ 1,696	$ 125,094	$ (1,352)	$ (42,560)	**$ 122,397**
Long-Term Debt	321,642	68,975	75,905	-	-	-	-	**466,522**
Retirement Benefit and Other Long-Term Liabilities	92,636	7,967	4,918	306	615	-	47,238	**153,680**
Current Liabilities	137,738	13,596	10,057	250	(3,227)	6,792	1,763	**166,969**
Total Capitalization and Liabilities	$ 524,356	$ 97,814	$ 150,783	$ 2,252	$ 122,482	$ 5,440	$ 6,441	**$ 909,568**

Segment Footnote - Consolidated Statement Of Financial Position

Citizens Energy Group and Subsidiary, Indianapolis, Indiana
(In Thousands)
At September 30, 2009

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

Capital Expenditures – Accrual Basis

	Capital Expenditures (In Thousands)	
	2010	2009
Citizens Gas	**$ 23,167**	$ 23,100
Steam	**3,355**	4,690
Chilled Water	**844**	2,422
Oil	**195**	51
Resources	**68**	90
Total	**$ 27,629**	$ 30,353

Additional Citizens Thermal Financial Information

Additional Citizens Thermal (Steam and Chilled Water) financial information for the years ended September 30, 2010 and 2009 is summarized as follows:

	(In Thousands)	
	2010	2009
Net Income (Loss)	**$ 3,465**	$ (2,232)
Total Liabilities	**181,418**	175,687
Owners' Equity	**67,179**	67,241
Interest on Long-Term Debt	**7,418**	7,615
Cash Flow Information:		
Beginning Cash Position	**$ 7,627**	$ 4,287
Cash from Operations	**16,576**	19,507
Cash to Investments	**(7,746)**	(13,406)
Cash to Financings	**(2,529)**	(2,761)
Ending Cash Position	**$ 13,928**	$ 7,627

9. Manufacturing Discontinuation Of Production And Related Asset Retirement Obligations

The Manufacturing Division, d.b.a. Indianapolis Coke, ceased operations on July 13, 2007. Final costs relating to the closure, including liquidation of inventories, plant demolition and environmental remediation are reflected in the accompanying financial statements in accordance with FASB guidance related to exit or disposal cost obligations. The costs of demolition and remediation will continue for several years. Current estimates of these costs are included in the financial statements as part of the asset retirement obligation.

The major classes of assets and liabilities of the Manufacturing segment (reported as Discontinued Operations) are presented in the segment Consolidated Statements of Financial Position for fiscal years ended September 30, 2010 and 2009 in Note 8.

For fiscal years ended September 30, 2010 and 2009, Discontinued Operations operating expenses were $4.6 million and $7.2 million, respectively.

The activity for fiscal years 2009 and 2010 for the asset retirement obligation liability is as follows:

	(In Thousands)
Asset retirement obligation at 9/30/08	$ 27,129
Accretion expense	3,256
Remediation liabilities settled	(189)
Change in cash flows (September 2009)	(25)
Asset retirement obligation at 9/30/09	30,171
Accretion expense	3,643
Remediation liabilities settled	(607)
Asset retirement obligation at 9/30/10	$ 33,207

10. Derivatives And Hedging

The Trust's Price Volatility Mitigation Policy sets guidelines for using selected financial derivative products to support prudent risk management strategies within designated parameters. The Trust's objectives for using derivatives are to decrease the volatility associated with fluctuating natural gas prices. The Trust enters into natural gas options purchased and sold on the New York Mercantile Exchange. 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 Consolidated Statements of Financial Position. Gains/losses and fees associated with these derivatives, when realized, are recoverable through the Gas Cost Adjustment tracker. Accordingly, the offset to the change in fair value of these derivatives is recorded as a regulatory asset or liability.

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

Fair Value of Derivative Instruments

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

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

(2) The fair value shown for the commodity contracts is comprised of derivative volumes totaling 4.4 million dekatherms. These volumes are disclosed in absolute terms, not net.

Unrealized gains and losses and settled amounts are initially recognized on the Statements of Financial Position as a deferred recoverable cost, a regulatory asset or liability (see Note 1.G), and ultimately recognized on the Consolidated Statements of Operations as Cost of Gas Sold when those costs are recovered through gas rate adjustments. The amount of realized gain included in recoverable gas costs was $1.6 million at September 30, 2010. The margin liability at September 30, 2010 was $0.1 million.

Derivative Impact on Statement of Operations

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

The derivative impact in utility cost of goods sold is recovered through regulatory gas rate adjustments in subsequent months, which is reflected in Utility Operating Revenue. The derivative impact on cash flow for 2010 was an increase of $3.2 million.

11. Commitments And Contingencies

a. Environmental Contingencies

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

b. Legal Contingencies

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

In July 2004, the Trust filed a declaratory judgment action in the Marion County Indiana Environmental Court seeking an order that certain insurance policies owned by the Trust dating back to 1952 would indemnify the Trust for possible future environmental remediation at the Prospect Street coke plant and the former coke plant located on Langsdale Avenue, both in Indianapolis. Fourteen settlement letters were sent to various insurers on or about March 9, 2006, proposing settlements totaling $79.4 million. The Trust has entered into settlement agreements with essentially all of the insurers totaling approximately $27.0 million. Settlements received have been reported as income to Discontinued Operations in the consolidated financial statements for the years ended September 30, 2010 and 2009, in the amount of $2.3 million and $0.9 million, respectively.

On August 11, 2010, the Board approved the Asset Purchase Agreements (APA) by and among the City of Indianapolis, the Department of Waterworks, and the Department of Public Utilities (acting by and through the Board, as trustee, in furtherance of the public charitable trust for the water system), and it approved the APA by and among the City of Indianapolis, the Sanitary District of the City of Indianapolis, the Department of Public Utilities (acting by and through the Board, as trustee, in furtherance of the public charitable trust for the wastewater system), and CWA Authority, Inc., a new Citizens nonprofit corporation created specifically for the purpose of acquiring the wastewater system. On August 11, 2010, the Board also approved the filing of a Verified Joint Petition with the IURC, seeking, among other relief, approval of the APAs and the transactions contemplated therein. If IURC approval is received, the Board would finance the acquisition of those systems under separate indentures unrelated to the GUS, GUDS and Thermal Indentures, but similar, to the GUDS Indenture. As a consequence, the Board would not expect the acquisition of such systems and their operations and financing plans to have an adverse impact on the operation of the Gas Utility Distribution System, the Thermal Energy System or the use of the Income and Revenues of the Gas Utility Distribution System or the Thermal Energy System. Due to several conditions precedent, at this time the Board cannot predict when the contemplated acquisitions will go to closing.

c. Leases

The Trust has entered into operating leases for storage of natural gas at various sites and for miscellaneous equipment. Lease expenses were $9.9 million and $11.7 million for the years ended September 30, 2010 and 2009, respectively. Future minimum lease payments under noncancelable operating leases as of September 30, 2010 are as follows:

	(In Thousands)
2011	$ 5,848
2012	522
2013	332
2014	332
2015	332
Thereafter	-
Total minimum lease payments	$ 7,366

12. Subsequent Events

Regulatory Developments:

Citizens Gas

In the first quarter of fiscal year 2011, Citizens Gas plans to file a petition with the IURC requesting approval of a new schedule of rates and charges to increase its gas utility operating revenues. The petition will also request other approvals, including changes to the general terms and conditions for gas utility service and approval of a proposed Universal Service Program, which is intended to provide funding for certain low income customers. Citizens Gas does not expect the case to be completed until the third or fourth quarter of fiscal year 2011.

On November 3, 2010, Citizens Gas, Southern Indiana Gas and Electric Company and Indiana Gas Company, Inc. filed a joint petition seeking approval of an alternative regulatory plan and agreement pursuant to which, among other things, ProLiance, an affiliate of Citizens Gas, will continue to provide gas supply and portfolio administration services to Citizens Gas. Citizens Gas does not expect the IURC to issue a final order in the case until the second quarter of fiscal year 2011.

Citizens Thermal Steam

In the first quarter of 2011, Citizens Thermal plans to file a petition seeking approval of a twenty year special contract pursuant to which Citizens Thermal would supply steam service and back up steam service to a new hospital being constructed by the Health and Hospital Corporation of Marion County. Pursuant to the contract, Citizens Thermal will construct steam utility facilities dedicated to provide back up steam service to the new hospital facility. Construction of the steam utility facilities is estimated to cost $9.4 million and is expected to be completed in September, 2013. The long-term contract would generate revenues sufficient to ensure Citizens Thermal recovery of all operating and capital costs related to constructing, operating and maintaining the back-up steam facilities.

Independent Auditors' Report

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

We have audited the accompanying consolidated statements of financial position of Citizens Energy Group and Subsidiary (the "Trust") as of September 30, 2010 and 2009, and the related consolidated statements of operations, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Citizens Energy Group and Subsidiary as of September 30, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 8, 2010
Indianapolis, Indiana

Report Of Management

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

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

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

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

John R. Brehm
Senior Vice President & Chief Financial Officer