

# INNOVATE

SUMMARY  
ANNUAL  
REPORT 2016





# TRUST PROFILE

Founded  
129 years ago,  
Citizens Energy Group provides safe  
and reliable natural gas, thermal energy, water and  
wastewater services to customers in the Indianapolis area.

Through Citizens Resources, the company operates affiliate joint ventures and wholly-owned subsidiaries including Citizens Westfield, a water, wastewater and natural gas utility serving Westfield, Indiana; and Citizens Oil, an oil producer in Southern Indiana.

Our Vision is to fulfill the promise of the Public Charitable Trust to serve our customers and communities with unparalleled excellence and integrity.

Citizens Energy Group's complete financial statements are presented in the Management Discussion & Financial Report 2016 available at [www.CitizensEnergyGroup.com](http://www.CitizensEnergyGroup.com).

## Results At a Glance

	2016	2015
Key Financial Highlights (In Millions)		
Operating Revenues.....	<b>\$771.2</b>	\$841.7
Capital Expenditures.....	<b>\$287.0</b>	\$340.0

## Key Operating Highlights

Miles of Pipe.....	<b>12,785</b>	12,700
Meters .....	<b>603,310</b>	596,094



**Jeffrey Harrison**  
President & CEO  
Citizens Energy Group

# VALUE THROUGH INNOVATION





## JEFFREY HARRISON

President & CEO  
Citizens Energy Group

Five years ago Citizens Energy Group opened a new chapter in its long history of creating value for the people of Indianapolis when it completed the acquisition of the community's water and wastewater utilities. The new Citizens created in 2011 expanded the reach and scope of our services from the confines of Marion County to the 9-county Indianapolis area.

As we reflect on the accomplishments of the past five years, it is clear the acquisition has significantly expanded the value Citizens is delivering to our customers and the communities we serve. In addition to the comfort delivered by our natural gas and thermal energy services, our water and wastewater utilities sustain life and the environment of Central Indiana in a very personal way.

Amidst the changes of the past five years, our diverse, team-oriented workforce is challenging the past and creating a culture of innovation that is enhancing service, increasing efficiency, and improving outcomes for our customers and the environment.

### CREATING VALUE FOR CUSTOMERS

To address our customers' needs and to exceed their expectations, our Voice of the Customer initiative is transforming the way we provide service. We are focusing on creating new customer self-service options through our re-designed website, such as seamless online bill payment and enrollment in programs such as budget billing. At the same time, we have made process changes to address wait times in our call center. Today, more customers are interacting with us via our website than our call center, where call wait times have declined to about 20 seconds.

In the months ahead, we will take our Voice of the Customer initiative to the next level by adding more self-service options allowing customers to conveniently transact business and communicate with us on their terms.

The foundation of our Voice of the Customer initiative is our effort to enhance our customer first culture that empowers frontline employees to make decisions benefiting the customer and the utility. Each day our employees come to work with a passion for customer service. Whether it be an operations employee making a system repair on a cold winter day or a call center representative directing financial assistance to a customer in need, our dedicated employees are truly owning the customer experience.

## VALUE THROUGH INVESTMENTS

We continue to make investments in our natural gas and thermal energy systems to keep them among the best maintained systems in the nation, while positioning both systems for continued growth.

Leveraging the innovative surge in U.S. natural gas production that has resulted in lower commodity prices not seen since the 1990s, Citizens is delivering record amounts of clean-burning gas to significantly benefit household and business budgets, while meeting the growing needs of electric power generators faced with new federal clean air mandates.

At the same time, conversion of our Perry K Steam Plant from coal to natural gas is allowing us to reduce rates for our steam customers across downtown Indianapolis, while significantly reducing emissions that impact the quality of our environment. We are also continuing to improve the efficiency of our chilled water system that continues expanding to serve the needs of the growing downtown area.

As we've positioned our energy systems for growth, we have also invested more than \$1 billion in our water and wastewater utilities since 2011. Our water system investments are ensuring water safety and quality, and reducing wasteful main breaks. Our innovative conversion of a quarry will create Citizens Reservoir, the first new reservoir for Central Indiana in nearly 60 years. Our wastewater system investments, including the DigIndy Project and the Septic Tank Elimination Program (STEP), are reducing the flow of raw sewage into area waterways to keep Citizens in compliance with a federal mandate.

Green solutions that reduce potential flow to the sewer system are an important part of our wastewater investments. We are very excited about our recently announced 10,000 Trees Initiative, a partnership with Keep Indianapolis Beautiful and the City of Indianapolis to plant trees throughout Marion County as a way to reduce potential sewer overflows, lower costs and enhance the environment and beauty of our community.

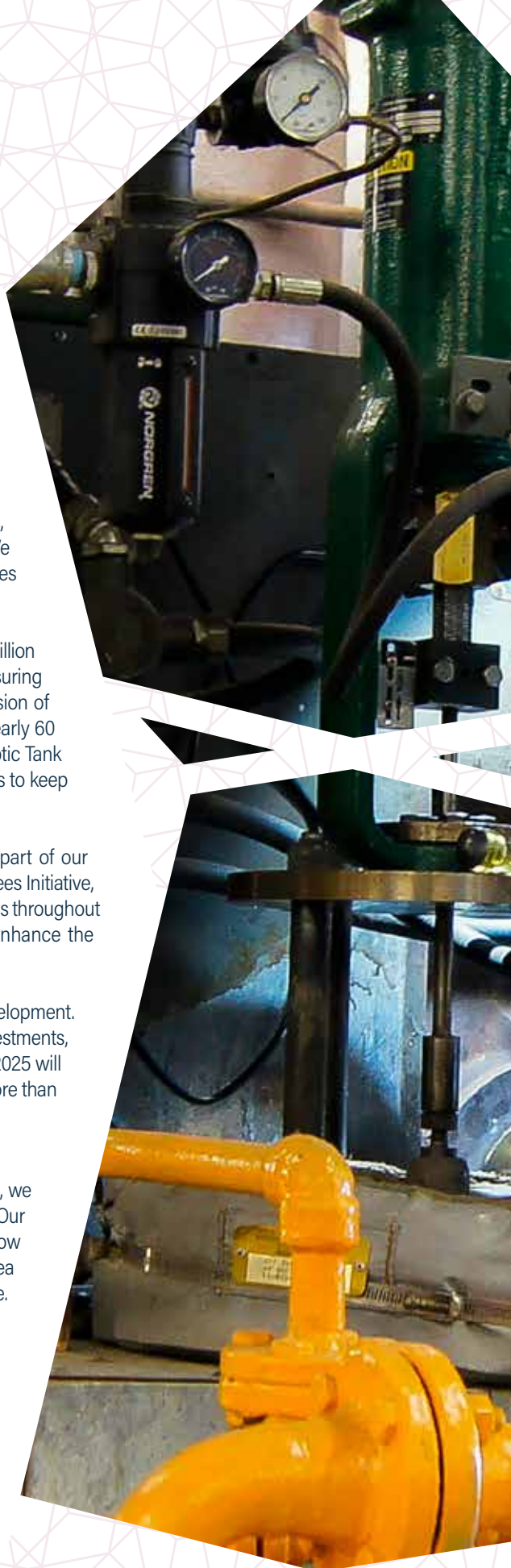
Our system investments are also supporting job creation and ongoing economic development. A recent independent study of our planned natural gas, water and wastewater investments, estimates that our \$7 billion of operations and infrastructure investments from 2011 to 2025 will create or support more than 58,000 good-paying jobs in Indiana that will generate more than \$450 million in state and local taxes.

## VALUE THROUGH EFFICIENCY

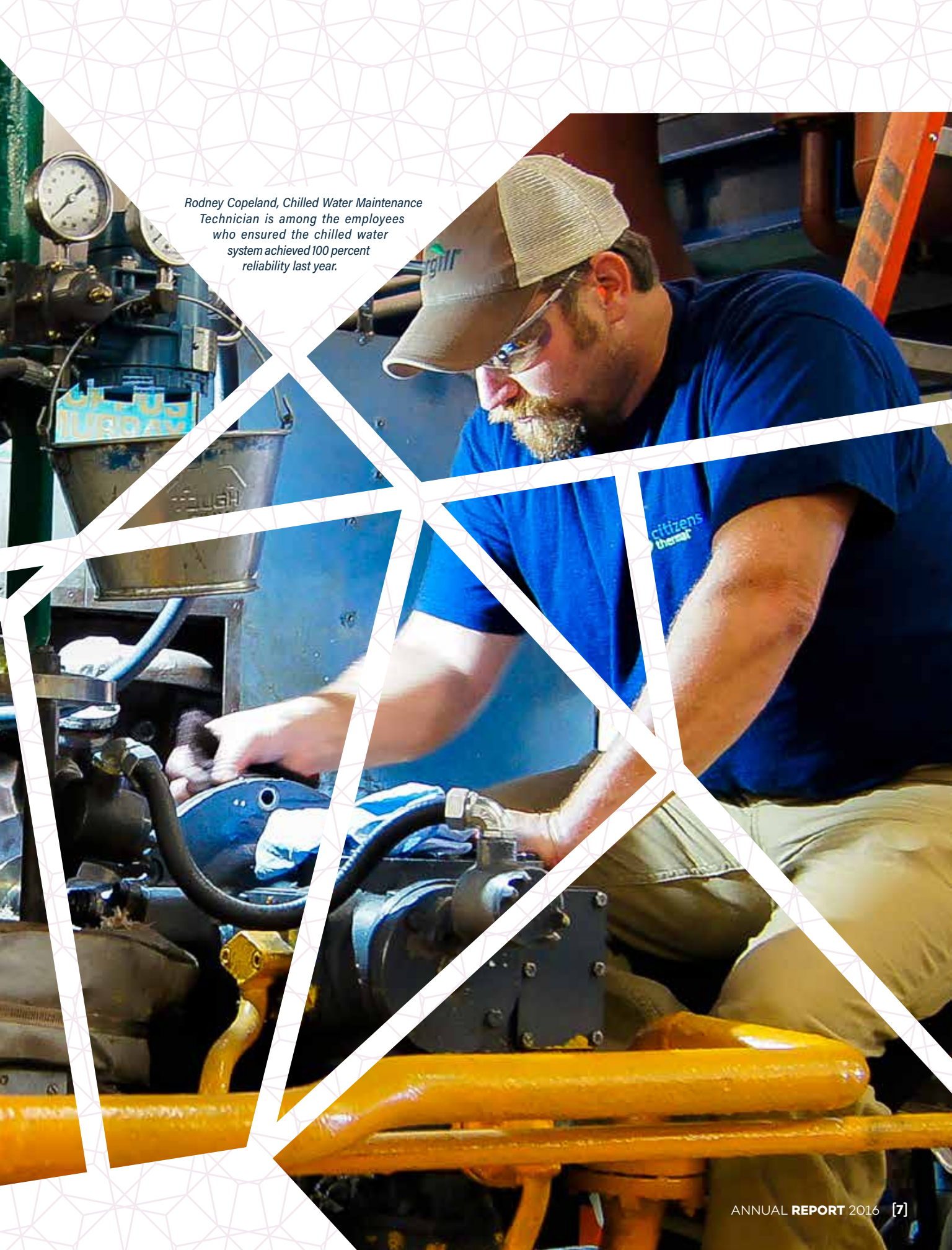
Recognizing that our vital system investments are raising water and wastewater rates, we are focused more than ever on creating value through innovation that drives efficiency. Our employees have a sense of urgency about lowering operating costs because they know more than 20 percent of our customers are living below the federal poverty level and area businesses are working to reduce costs as they compete in a local and global marketplace.

Applying a process called value engineering, we are continually re-evaluating the design and execution of all our capital projects to ensure we are maximizing efficiency and lowering project costs, while enhancing environmental outcomes.

As we apply value engineering, we are reviewing our operating processes to enhance efficiency, control costs, drive innovation and improve service to our customers.



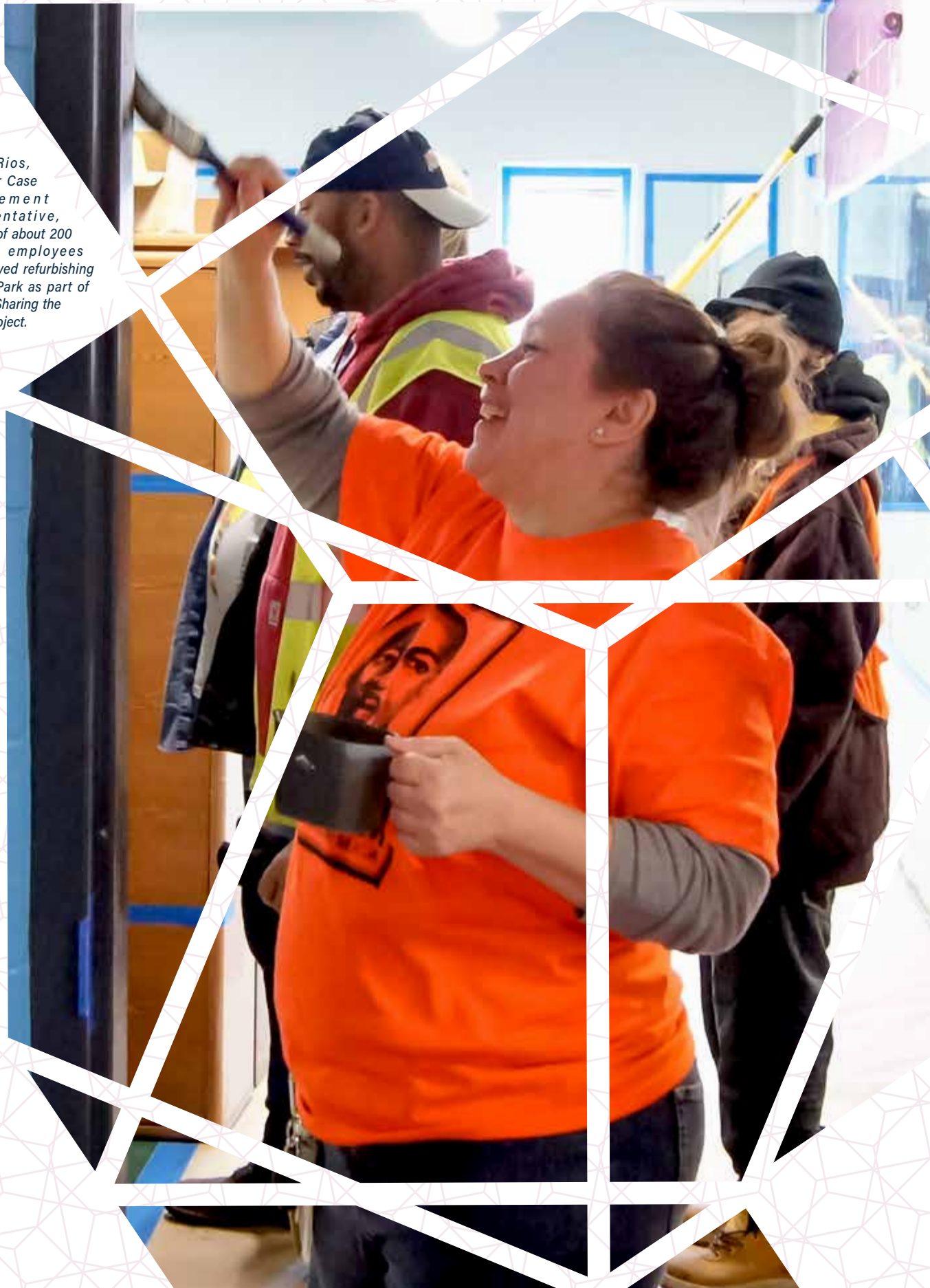




*Rodney Copeland, Chilled Water Maintenance Technician is among the employees who ensured the chilled water system achieved 100 percent reliability last year.*



*Sheryl Rios, Customer Case Management Representative, was one of about 200 Citizens employees who enjoyed refurbishing Garfield Park as part of the 2016 Sharing the Dream Project.*







### VALUE FOR OUR COMMUNITIES

As Citizens supports various non-profit endeavors, our employees are positively impacting their communities in many ways including coaching local youth sports teams, volunteering in the local food pantry, and coming together to improve IndyParks through our annual Sharing the Dream event.

Knowing many low-income customers live in aging homes, we continue to support home heating safety in partnership with the Indianapolis Fire Department and local churches. Over the past decade, we have donated more than 64,000 smoke and carbon monoxide alarms in low income areas of the city.

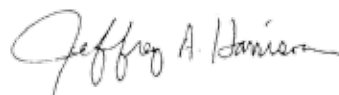
We also continue to support neighborhood and economic development efforts across the city. We are especially focused on working with partners to improve quality of life in the area around our former coke manufacturing plant on Prospect Street. As we complete demolition of the coke plant structures and move forward with environmental remediation work, we are bringing together entities that can revitalize the area.

In keeping with one of our core values, our efforts to promote diversity in our work force, business partners and communities are making Indianapolis a more prosperous and livable community. Citizens is an active sponsor of events and organizations that promote diversity and inclusion. At the same time, our supplier diversity program has exceeded goals set five years ago with more than \$128 million of annual investment with minority, women and veteran-owned businesses. Our workforce diversity program was recently honored as the fourth best diversity program in the nation with an Employee Resource Groups Council Honors Award™ from Prism International.

### CREATING A CULTURE OF INNOVATION

As we reflect on the past five years, I could not be more proud of all that we have accomplished, and I could not be more optimistic about the future of Citizens Energy Group. My optimism is based entirely on the unwavering commitment our employees display every day to creating value through innovation. I firmly believe the new Citizens we have created together is truly achieving our vision to fulfill the promise of the Public Charitable Trust to serve our customers and communities with unparalleled excellence and integrity.

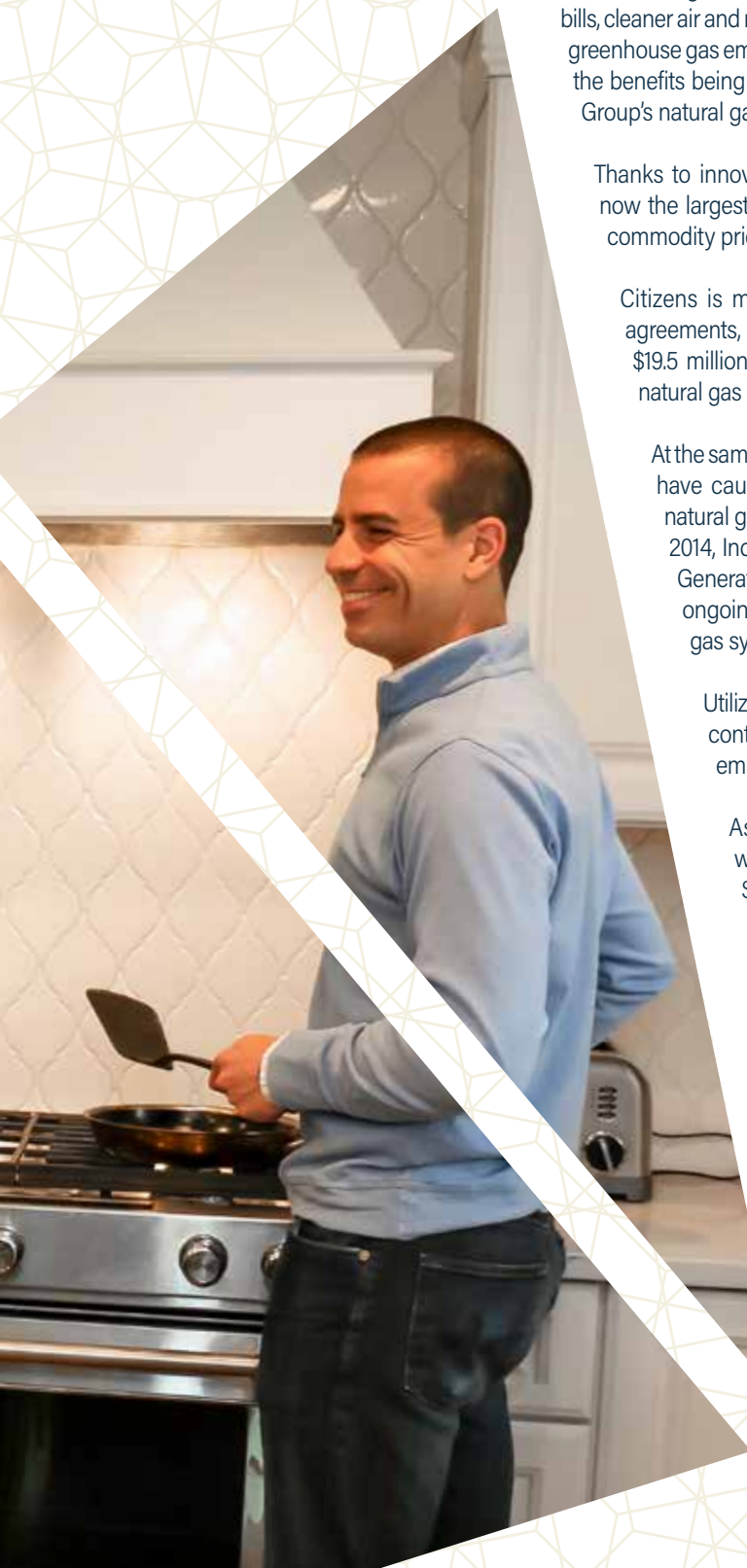
Sincerely,



# NATURAL GAS LOWERS COSTS, IMPROVES ENVIRONMENT



*Citizens customers are  
enjoying the comfort,  
convenience and lower  
costs of natural gas.*



Significantly lower natural gas bills, cleaner air and reduced greenhouse gas emissions are among the benefits being delivered by Citizens Energy Group's natural gas system.

Thanks to innovative and safe natural gas production methods, the U.S. is now the largest natural gas producer in the world. With rising production, natural gas commodity prices have fallen to their lowest level in more than 20 years.

Citizens is maximizing benefit to customers through long-term gas purchasing agreements, such as a 5-year contract secured last year that will save our customers \$19.5 million. As a result of low prices and wise purchasing decisions, the average natural gas bill in Indianapolis has declined more than 40 percent since 2009.

At the same time, lower natural gas prices combined with federal clean air mandates have caused electric power generators to convert power plants from coal to natural gas. In addition to conversion of our Perry K Steam Plant to natural gas in 2014, Indianapolis Power & Light completed conversion of their Harding Street Generating Station to natural gas this past February. These plant conversions and ongoing system growth have increased gas deliveries on the Citizens natural gas system by 31 percent over the past six years.

Utilizing natural gas has allowed electric power generators to reduce emissions contributing to ground level smog by more than 90 percent and cut carbon emissions by about 45 percent.

As our natural gas system meets growing demand, we are ensuring safety while holding down costs. Thanks to dedicated employees and about \$600 million of system improvements over the past 30 years, the Citizens natural gas system is one of the safest and best maintained urban gas utilities in the nation. While many peer utilities are engaged in multi-year programs to replace aging cast iron pipe, more than 99 percent of the Citizens natural gas system is newer plastic or protected steel pipe.

The safety of the Citizens natural gas system was confirmed by an ongoing leak detection study of Indianapolis, New York, Boston, Syracuse, Pittsburgh, Jacksonville and Dallas by the Environmental Defense Fund and Google Maps. The study found thousands of leaks in several cities including New York and Boston, where more than 40 percent of the systems are cast iron pipe over 50 years old. In Indianapolis, only five tiny leaks were detected on the modern Citizens natural gas system.

Looking forward, Citizens expects further market growth as existing residential customers enjoy the comfort, convenience and lower cost of gas, and new markets, such as transportation, increasingly use natural gas to reduce both fuel costs and air emissions.



# CREATING VALUE FOR A GROWING DOWNTOWN

Our thermal energy systems are providing cost-effective and sustainable steam and chilled water service to the growing downtown area, while improving air quality.

Serving about 300 buildings with more than 83 million square feet of space, our thermal systems deliver energy that is highly efficient to a wide range of clients including Lucas Oil Stadium, the State House, IU Health and IUPUI.

The steam system, the second largest in the country, provides space heating as well as steam for manufacturing and power production. The chilled water system provides space cooling critical to facilities such as labs and hospitals. Chilled water also allows our customers to reduce their electric usage in the summer months, thus avoiding costly peak electric demand charges.

Our thermal systems allow commercial, industrial and institutional customers to focus on their core competencies and primary missions. Not having onsite energy systems also allows customers to save valuable space for income-producing or storage purposes. Not having onsite boilers and chillers also means less capital investment, less risk, and lower ongoing operating, maintenance and labor costs. Fuel costs are often lower too, thanks to our ability to make long-term volume purchases.

The innovative conversion of our Perry K Steam Plant from coal to clean, affordable natural gas has allowed Citizens to reduce steam rates about three percent.

The Perry K conversion has reduced emissions associated with smog by more than 90 percent and lowered greenhouse gas emissions about 45 percent. In addition, the conversion has allowed the plant to generate its own electricity, virtually eliminating use of purchased power. Citizens is also delivering renewable energy since 50 percent of the steam delivered by our system is generated by Covanta Energy's waste-to-energy facility on Harding Street.

As Citizens remains focused on innovation to drive efficiency and environmental protection, we are also making the system investments necessary to support economic development in the rapidly growing downtown area. In the past five years, Citizens has invested more than \$61 million in our thermal energy systems to accommodate growth, improve air quality and ensure system safety and efficiency.





*John Anderson, Steam Distribution Operator and Pat Korando, Utility Maintenance Specialist, are among the employees who ensured the Citizens steam distribution system achieved more than 99 percent reliability last year.*



In 2012, when Central Indiana experienced one of the worst droughts in 50 years, the need to reduce water main breaks and improve water supply planning was magnified. Citizens has heeded the lessons of the drought by making more than \$230 million of system investments since 2011 and engaging in innovative water supply planning with other water companies across the region.

Our investments in the more than century old water distribution system have steadily reduced the number of annual water main breaks and we are confident continued system investments will steadily reduce lost water and revenue.

Our integrated planning process has produced a 100-year water supply plan that focuses on conservation, system optimization, and making investments providing new supply at the lowest possible cost. We are coordinating our supply planning through the newly formed Central Indiana Drinking Water Collaborative, which includes representatives from 16 water utilities.

Our planned Fall Creek Water Supply Intake and Citizens Reservoir projects will make our system more drought resistant, while ensuring long-term water supply vital to economic development.

The new Fall Creek Water Supply Intake will allow Citizens to move water from Fall Creek to the Central Canal, which currently moves water from the White River to our largest water treatment plants. This intake will allow us to better balance withdrawals from our Geist Reservoir, fed by Fall Creek, and Morse Reservoir, fed by the White River.

We are planning to convert an 88-acre, 230-foot deep quarry in Hamilton County into Citizens Reservoir. When complete in 2020, the new reservoir will provide about 3.2 billion gallons of new storage capacity, which is more than half the capacity of the adjacent Geist Reservoir. Citizens Reservoir, which will be the first new reservoir developed in Central Indiana in nearly 60 years, will be able to provide 25 million gallons per day of water supply at a small fraction of the cost of building a conventional reservoir.

As we make investments to secure vital water supply, we are ensuring water safety through rigorous monitoring of our raw and finished water and continuous investments in our treatment plants.

The contamination of drinking water with lead in Flint, Michigan has magnified the importance of water safety for utilities nationwide. A recent inventory of our system determined Citizens has no lead pipe in its water distribution system. We have estimated there are about 50,000 older homes in Indianapolis with lead service lines, which are owned by customers. However, annual testing has shown that elevated levels of lead are seldom found in the drinking water of these older homes. Citizens also takes steps during the treatment process to ensure lead and other substances do not present safety risks to our customers.







*Leo Sparks, Analytical Chemist, is among the employees who ensure Citizens always distributes safe, high quality drinking water.*

**SAFE, RELIABLE  
WATER FOR  
OUR FUTURE**



*Sandy Shafer, a member of the Wastewater Construction group, is among the employees who are ensuring Citizens efficiently completes wastewater system investments.*

**INNOVATIVE  
SOLUTIONS  
FOR A CLEANER  
ENVIRONMENT**





Citizens Energy Group is developing innovative solutions that will significantly reduce the cost of unprecedented wastewater system improvements, while improving outcomes for our natural environment.

Working with contractor Shea-Kiewit, Citizens has finalized a completion plan for the DigIndy Tunnel System, a 28-mile network of deep rock tunnels that will virtually eliminate sewer overflows from the community's aging sewer system by the year 2025. The completion plan will save customers an additional \$70 million over the original design estimate and will improve the capture of sewer overflows from 95 to 99 percent.

Applying value engineering to the Septic Tank Elimination Program (STEP), Citizens will save our customer base more than \$50 million over the next decade, while lowering costs for impacted homeowners by 50-70 percent.

We are also utilizing innovative green solutions such as rain gardens to reduce flows to the sewer system, while beautifying neighborhoods. Our CSO33 Project that brought rain gardens to a Haughville neighborhood was recognized in 2015 with a Sustainability Award from the Mayor of Indianapolis. Our recently launched 10,000 Trees Initiative with the City of Indianapolis and Keep Indianapolis Beautiful will plant trees across the city over the next decade. The tree plantings will prevent about 3 million gallons of potential sewer overflows from reaching area waterways while lowering costs.

Citizens is utilizing innovative pipe relining technology to rehabilitate existing sewers without extensive excavations to reduce costs and disruptions to traffic and neighborhoods. This innovative approach has helped Citizens complete about 57,000 feet of sewer line rehabilitation in 2016, compared to about 10,000 feet per year completed under the utility's previous ownership. In addition, we are achieving savings by leveraging local contractors doing near surface work and optimizing vendor costs for construction inspections and engineering.

As we continually work to achieve capital project savings, a cross-functional team is focused on reducing energy costs that will rise as the tunnel system and expanded wastewater treatment plants begin processing expanded sewage volumes.

The benefits of our wastewater system investments are far reaching. Our improvements have already prevented 2 billion gallons of sewage per year from reaching area waterways. DigIndy will reach a milestone in late 2017 when the first 9 miles of the system opens and begins preventing 900 million gallons of sewage from reaching the White River and Eagle Creek. When DigIndy is completed in 9 years, area waterways will be restored to levels not seen in more than 100 years, thus improving quality of life across the region and enhancing economic development.



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