



## SMART SOLUTIONS



*Investments made since 2011 have prevented about 2 billion gallons of raw sewage from overflowing into the White River.*



Founded 128 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 gas utility serving Westfield Indiana; Heartland Gas Pipeline, an intrastate natural gas pipeline; and Kinetrex Energy, a provider of liquefied natural gas.

**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 2015 available at [www.CitizensEnergyGroup.com](http://www.CitizensEnergyGroup.com).

#### Results At a Glance

|  | 2015           | 2014    |
|--|----------------|---------|
| Key Financial Highlights (In Millions) |                |         |
| Operating Revenues                     | <b>\$841.7</b> | \$819.2 |
| Capital Expenditures                   | <b>\$340.0</b> | \$332.6 |

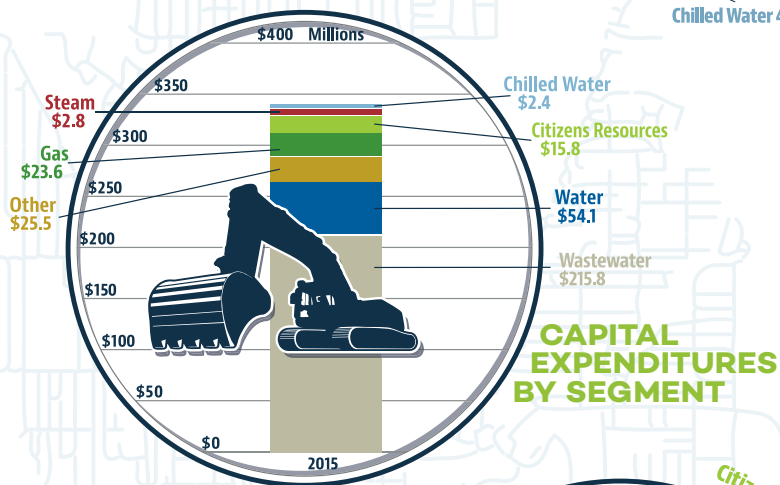
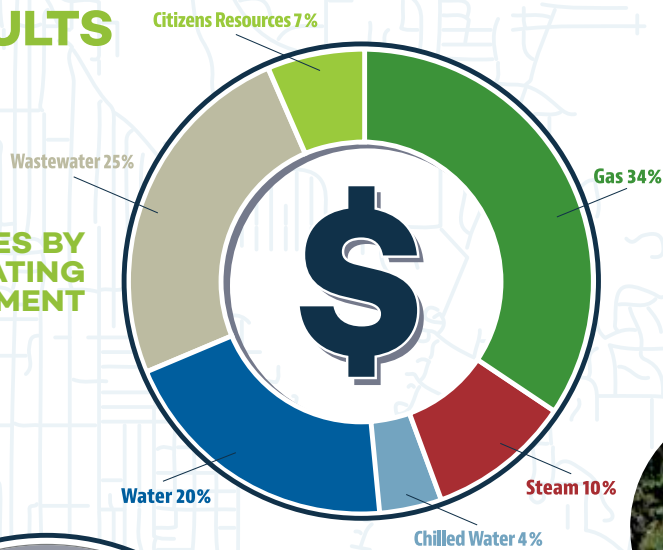
#### Key Operating Highlights

|               |                |         |
|---------------|----------------|---------|
| Miles of Pipe | <b>12,700</b>  | 12,416  |
| Meters        | <b>596,094</b> | 588,704 |



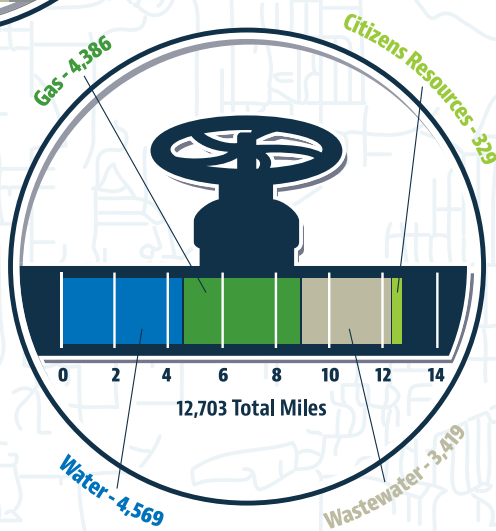
# 2015 RESULTS

## REVENUES BY OPERATING SEGMENT



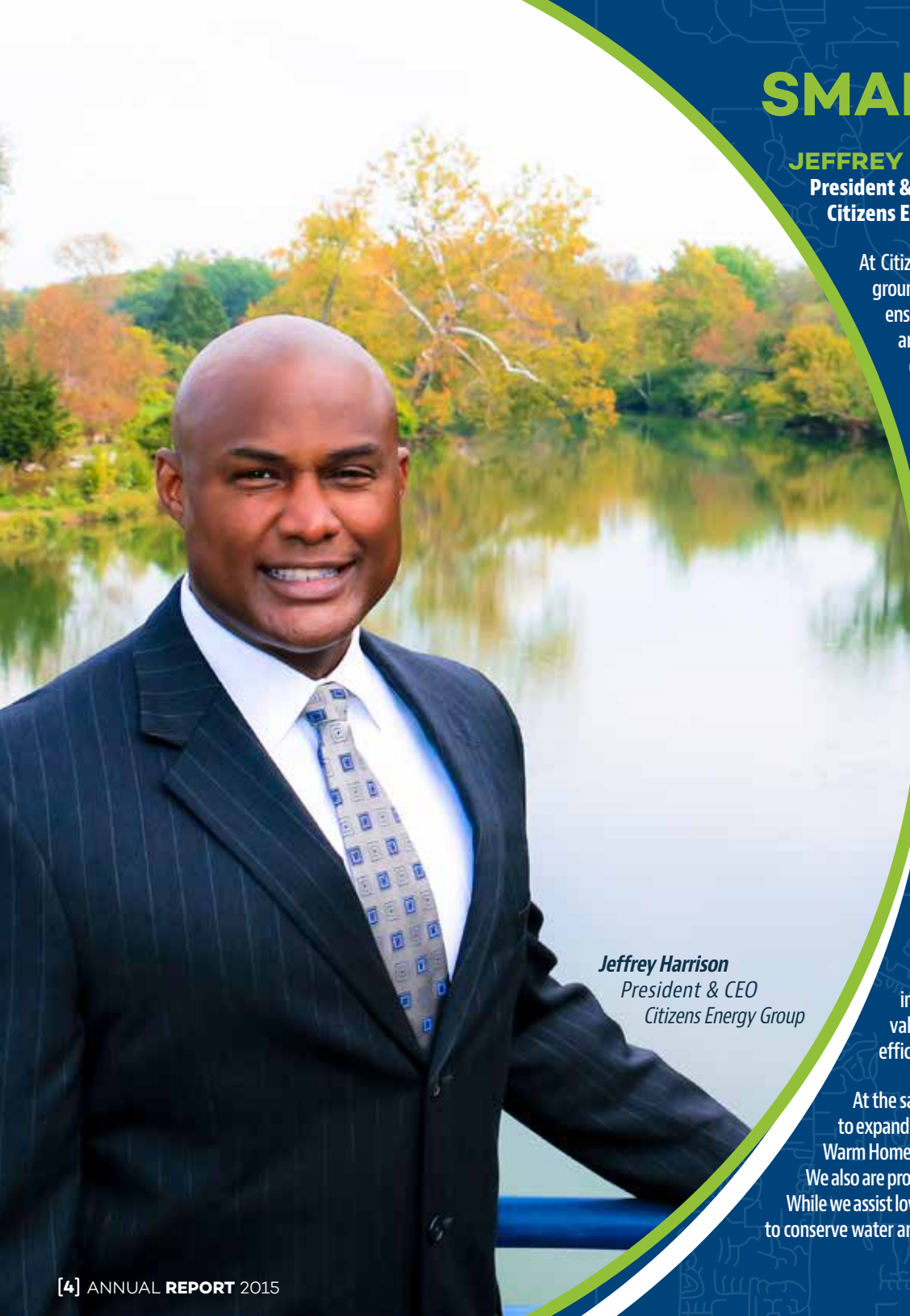
## CAPITAL EXPENDITURES BY SEGMENT

## MILES OF PIPE BY SEGMENT



Citizens has made about \$1 billion in system investments since 2011.





# SMART SOLUTIONS

## JEFFREY HARRISON

President & CEO  
Citizens Energy Group

*Jeffrey Harrison  
President & CEO  
Citizens Energy Group*

At Citizens Energy Group, crafting smart solutions for our customers and communities is grounded in our structure as a Public Charitable Trust. Created 128 years ago, the Trust ensures Citizens has the service focused mission of a utility, while retaining the innovation and efficiency of an investor-owned enterprise. Governed by a community-based board of directors not pressured by the quarterly demands of stockholders or the influence of partisan politics, the Trust keeps the Citizens team focused solely on improving the quality of life and economic vitality of the nation's 13<sup>th</sup> largest city.

As we operate our primary utilities only for the benefit of our customers and community, our Trust structure allows us to operate for-profit ventures such as Kinetrex Energy, our liquefied natural gas subsidiary. These for-profit entities provide funding for initiatives such as assistance to low-income customers, community redevelopment projects and corporate philanthropy.

Our Trust structure led us to partner with Mayor Greg Ballard in 2011 to bring the community's water and wastewater utilities into the Citizens family of companies. While these utilities present significant infrastructure challenges, their historic acquisition is helping Citizens fulfill its original mission.

## SMART CUSTOMER SOLUTIONS

Our Voice of the Customer initiative is transforming the way we serve you. Knowing customer expectations for ease of use are higher than ever, we are creating more self-service options through our revamped website and new ways to communicate with us, such as online chat. Combining gas, water and wastewater services, our Shared Field Services Department is creating a 360 degree line of sight across our service delivery system.

As we make it easier to do business with us, we are finding innovative ways to ensure our services remain affordable. With poverty continuing to grow at an alarming rate in Marion County, we are concentrating more than ever on controlling costs through value engineering to build projects smarter, and process improvements promoting efficiency and better service.

At the same time, we are creating smart solutions to help customers in need. We are working to expand our for-profit ventures and partnerships to provide more funding for our Warm Heart Warm Home Foundation™ that each year provides grants to thousands of low-income customers. We also are proposing creating special assistance funds for water and wastewater customers in need. While we assist low-income customers, our representatives are working closely with business customers to conserve water and energy to enhance their competitive position in the marketplace.



## SMART INVESTMENTS

Our energy systems represent the prototype for smart investments paid for through rates. Thanks to three decades of steady investments, 99.9 percent of our natural gas system is plastic or protected steel, a standard many other utilities are scrambling to meet. Likewise, we are making smart investments in our steam and chilled water systems that heat and cool facilities throughout downtown Indianapolis. Last year we secured the long-term viability of our thermal energy business while improving our environment when we converted our Perry K Steam Plant from utilizing coal to clean-burning, U.S. produced natural gas.

We are now making smart investments in our aging water and wastewater systems. Since 2011, we have made about \$1 billion of system improvements including:

- **Dig Indy Tunnel System** – We are ahead of schedule and below budget on the federally mandated Dig Indy project, a 28-mile network of deep rock tunnels that we will complete by 2025 to nearly eliminate sewer overflows polluting area waterways during moderate rain events. Our wastewater projects have already prevented 2 billion gallons of annual sewage discharges into our waterways.
- **Septic Tank Elimination Program (STEP)** – Over the past four years, STEP has brought sewers to 8,000 residents who had depended on failing septic systems leaching raw sewage into neighborhood ditches and waterways.
- **Better system flow and reliability** – We are reducing annually hundreds of wasteful water main breaks with new infrastructure and innovative pipe relining technology. New system connections are improving water flow across our service territory.
- **New water resources** – We are optimizing our well fields, improving the Central Canal, and securing new water sources, including a plan to convert a quarry in Hamilton County into a reservoir.

As we make these investments, we are working to gradually reduce long-term debt that is restricting the financial flexibility of both utilities. While water and wastewater system investments will mean higher rates, they will restore water quality in the White River and other area streams to levels not seen in about 100 years, while ensuring we have the water we need for economic development. As our waterways are cleaned up, neighborhoods will be revitalized and recreational opportunities will be enhanced across the city. Our investments in water and wastewater system improvements over the next two years will also support thousands of good paying jobs in Central Indiana.

## SMART PARTNERSHIPS

With revenue from our for-profit ventures and countless volunteer hours by our employees, we are forging smart partnerships with organizations working to make Indianapolis a better place to live, work and play.

- **Philanthropy** – We are providing more than \$1 million annually to support various non-profit organizations across Central Indiana.
- **Sharing the Dream** – We are sustaining our local park system through our Sharing the Dream initiative in honor of Dr. Martin Luther King Jr. Over the past seven years, Citizens employees and partners at Marksmen Construction and Mitch Design have volunteered to make more than \$900,000 of improvements to seven Indy Parks facilities.
- **Keeping customers safe** – We are supporting home heating safety through our partnership with local churches and the Indianapolis Fire Department. Over the past 9 years, we have distributed more than 62,000 smoke alarms and pamphlets on home heating safety and energy assistance in low income areas of the city.
- **Promoting diversity** – We are supporting diversity in our work force, business partners and communities. Citizens is an active sponsor of events and organizations that support diversity including Indiana Black Expo, the Indiana Latino Expo, and the Indy Pride Parade. At the same time, we are supporting supplier diversity with more than \$128 million of annual spending with minority, women and veteran-owned businesses, exceeding goals we set in 2011.

## SMART SOLUTIONS

On July 1, when I became only the 10<sup>th</sup> President & CEO of Citizens Energy Group I was very mindful of the legacy of excellence provided by my predecessor Carey Lykins and the five generations of employees who have made Citizens a vital part of Central Indiana.

**Smart Solutions** – That's what 1,100 Citizens employees are excited about each day when they arrive for work. Our employees know they are tackling big challenges. And they know their smart solutions will deliver big rewards for our customers and all the communities we call home.

Sincerely,







# INDUSTRY LEADING NATURAL GAS SYSTEM

*Melissa Lawson  
Manager of Gas System Integrity*



Peer utilities around the nation are spending billions of dollars over the next decade to replace aging natural gas pipelines to comply with new federal pipeline safety standards. Thanks to nearly \$600 million of system improvements over the past 30 years, 99.9 percent of Citizens Energy Group's natural gas system is plastic or protected steel.

"Replacing Citizens' aging infrastructure with modern plastic and protected steel materials reduces gas leaks and associated expenses, which in turn, reduces rates to Citizens' customers. We also ensure pipelines remain the safest way to transport energy through proper system maintenance, continuous monitoring of pipeline pressures, leak detection surveys, aerial patrols of pipeline routes, corrosion prevention systems and public awareness programs," said Melissa Lawson, Manager of Gas System Integrity.

The safety and integrity of our gas system was confirmed by a recent study by the Environmental Defense Fund (EDF) and Google Maps in which leak detection surveys were conducted in Staten Island, Boston and Indianapolis. The study revealed thousands of small methane leaks along the systems in Staten Island and Boston where more than 40 percent of pipe is cast iron over 50 years old. Here in Indianapolis only five small gas leaks were detected.

Minimizing gas leaks is also important for the environment since methane from natural and industrial sources is the most powerful greenhouse gas linked to climate change. Thanks to natural gas pipeline upgrades like those that have occurred at Citizens, methane emissions from the energy sector in the U.S. are down nearly 40 percent over the past 10 years.

At the same time, increased use of natural gas for electric power generation is helping reduce carbon dioxide emissions linked to climate change. By next year, power generation will become Citizens' largest natural gas consumer.

With four interstate natural gas pipeline suppliers accessing supply basins across North America, Citizens is well positioned to meet the growing demand for this clean-burning, domestically abundant fuel.

*Citizens natural gas system is now 99.9 percent plastic or protected steel that complies with new federal pipeline safety standards.*







# SECURING FUTURE WATER SUPPLY

*Earl Brinker, President and CEO of Irving Materials, and Jeff Willman, Vice President, Water Operations, at the 88-acre quarry that will become Citizens Reservoir.*



When most people view the massive 88-acre quarry near Geist Reservoir, they see a big hole in the ground. Citizens engineers envisioned the first new reservoir in Central Indiana since 1968.

In June, Citizens announced plans to acquire and develop the quarry into Citizens Reservoir. When complete in 2020, the quarry, which has been mined for limestone by Irving Materials (IMI) since 1956, will be able to store 3.2 billion gallons of water or about 50 percent of the storage capacity of the 1,800-acre Geist Reservoir.

"Citizens Reservoir is a cost-effective and sustainable solution for providing Central Indiana the water supply it will need for continued population growth and economic development," said Jeff Willman, Vice President, Water Operations. "The new reservoir will also be a vital component of helping the region endure serious drought conditions like those that led to mandatory water use restrictions in 2012."

The 230-foot deep quarry will capture water that is now lost over the Geist Dam during periods of heavy rain. "It's exciting and gratifying to see our long-standing relationship with the water utility culminate in a project that will serve future generations," said Earl Brinker, President and CEO of IMI.

Recent studies by Citizens Energy Group and the Indiana Chamber of Commerce indicate Central Indiana will need an additional 50-80 million gallons of water per day in order to meet the region's growing demand over the next 25 years. Citizens has already addressed a portion of this need with new water supply facilities and system optimization projects. The new Citizens Reservoir will provide up to 25-million gallons per day of additional water that can be used during the summer months across the utility's 8-county service territory.

Citizens is also helping ensure efficient water resource solutions through collaborative resource planning with other utilities across Central Indiana.

*An 88-acre quarry in Hamilton County will become Citizens Reservoir.*







# TRANSFORMING OUR CUSTOMER EXPERIENCE

**Abed Darwish**  
Manager,  
User Experience



Our Voice of the Customer initiative is transforming the way we serve customers.

"In the age of 2-hour delivery from Amazon.com and breaking news instantly communicated via Twitter, customers have the expectation of a superior digital experience from all of their service providers. At Citizens, we are focused on creating seamless self-service functionality via our website. We are also implementing new communications channels such as online chat and text messaging, and customer service interaction through social media channels," said Abed Darwish, Manager, User Experience.

As we add self-service options, the average speed of answer at the Citizens call center has dropped more than 90 percent over the past year. We have also created a more efficient Shared Field Services Department providing combined gas, water and wastewater services, such as meter reading to homes and businesses. Among the recent customer service enhancements now being offered are:

- **No fee credit card payments** – Customers can now make credit card payments without a transaction fee. The fee had been \$3.50 per transaction.
- **Redesigned website** – Our new website is responsive and more accessible to the full range of devices, including smart phones and tablets. About one-third of users now access our site from mobile devices.
- **Customer self-service** – Customers can now sign up online for budget billing, payment arrangements, automatic bank deduction, and move-in/out orders.
- **Online chat** – Customers can interact with our customer service representatives via online chat.
- **Proactive alerts and notifications** – Customers can now subscribe to receive alerts via text, email or automated phone call. These alerts notify customers of various billing related matters, such as their payment due date, payment posting date and a pending disconnection notice. Customers can also receive service notifications including appointment confirmation, and service status or completion on their premises.
- **Improved appointment scheduling** – Customers can now contact our call center to schedule appointments for field service in two-hour service intervals, rather than four hours.
- **Outage map** – A new online map displays system outage locations and duration.
- **Consumption history** – Online graphs allow customers to review their energy and water usage to better manage conservation practices.

In the year ahead, we will continue to enhance the customer's digital experience with expanded customer service via social media, the creation of a construction project viewer, online service appointment management, and additional online payment options. "Ultimately, our goal is to create an expanded menu of customer service options to make Citizens the market leader for customer ease of use in Central Indiana," said Darwish.

*Learning and Growth Specialist Lacy Wooden leads the team providing new online chat services to Citizens customers.*







# EXPANDING DIG INDY TUNNEL SYSTEM

*Project Engineer **Olivia Hawbaker** and **Mike Miller**,  
Manager of Construction for the Dig Indy Project, in the  
Eagle Creek Tunnel now under construction.*



As Citizens Energy Group engineers and project managers design and build the nearly \$2 billion solution to the community's sewer overflow problem, we are continually looking for smart solutions that achieve savings, while improving environmental outcomes.

The recent addition of the Eagle Creek Tunnel to the 28-mile Dig Indy Tunnel System, now under construction, is a great example of how cost savings and environmental enhancement are compatible goals.

"The original design for eliminating sewer overflows to Eagle Creek involved a shallow sewer interceptor about two miles long. As a result of value engineering during the construction of the Deep Rock Tunnel Connector segment, we were able to redesign the Eagle Creek solution as a deep tunnel. This solution will save about \$15 million in project costs and provide an additional 17 million gallons of raw sewage storage benefiting the environment. The deep tunnel solution also avoided significant disruptions to local businesses, residents and roadways," explained Olivia Hawbaker, Project Engineer.

Community benefits were also provided by collaborative efforts with Indy Parks and Indianapolis Power & Light (IPL). "Due to construction impacts of building near-surface infrastructure at Ross Claypool Park, Citizens will provide park improvements including replacement of the existing basketball court and parking lot. Additionally, a rain garden will be constructed to collect stormwater at the site and reduce clear water flow to the combined sewer. Collaboration with IPL on the existing utility upgrades resulted in cost savings for both utilities, and reduced road closures and disruption to the nearby neighborhood," said Mike Miller, Manager of Construction for Dig Indy.

While many of the other benefits of Dig Indy are a decade away, the Eagle Creek and Deep Rock Tunnel Connector will be complete in 2017 and begin reducing potential sewer overflows to the White River and Eagle Creek by 900 million gallons per year.

*The playground at Ross Claypool Park has been improved through savings generated in the course of the Eagle Creek Tunnel Project.*



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