

**MINUTES OF THE MEETING OF
THE BOARD OF DIRECTORS OF
CITIZENS ENERGY GROUP
HELD JUNE 2, 2011**

Pursuant to notice duly given and posted as required by law, the Meeting of the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis convened at 9:00 a.m. EST, Thursday, June 2, 2011, at the Eiteljorg Museum, Clowes Sculpture Court Room, 500 West Washington Street, Indianapolis, Indiana.

Board members present: Daniel C. Appel, Jeffrey E. Good, Anita J. Harden, Dorothy J. Jones, Martha D. Lamkin, James M. McClelland, and Anne Nobles.

Present from the Utility: President and Chief Executive Officer Carey B. Lykins, Senior Vice President and Chief Financial Officer John R. Brehm, Senior Vice President and General Counsel and Assistant Secretary John R. Whitaker, Senior Vice President, Chief Administrative Officer M Jean Richcreek, Senior Vice President, Operations William A. Tracy, Vice President of Community Relations Yvonne Perkins, Vice President, Integration and Associate Counsel Aaron D. Johnson, Vice President, Engineering and Facilities Management, Jeffrey A. Harrison, Robert J. Hummel, Vice President of Human Resources, Vice President, Gas & Steam Operations Lindsay C. Lindgren, Vice President, Information Technology John F. Lucas, Vice President of Market Development Michael D. Strohl, Director of Environmental Stewardship Ann McIver, Director of Sales and Marketing Jeffrey A. Willman, Director of Procurement and Supplier Diversity Jeffrey T. Ford, Director of Internal Audit Kristine D. Kuhn, Director of Human Resources Jodi L. Underwood, Director of Treasury Curtis H. Popp, Director of Steam Operations, Robert R. Purdue, General Manager, Strategic Growth Initiatives, Operations Barbara Q. Smith, General Manager of Gas Operations Christopher H. Braun, Senior Auditor Sheila E. McLain, Manager, Corporate Communication Dan C. Considine, Counsel Ruth A. Hardy, and Market Research Analyst Shannon Stahley.

Guests present: Daniel F. Evans, and Martha Summerville, Consultant.

Chairman Lamkin called meeting to order and introduced Carey Lykins.

Mr. Lykins welcomed board members, guests and management team attending. He said the meeting is an important opportunity for the board and management team to gather to think strategically about the opportunities and challenges presented by the pending water and

wastewater acquisition and Citizens' ongoing energy businesses. He said the meeting agenda was designed to be responsive to the board's self assessment, which requested a review of the trust's risk assessment process. Mr. Lykins then introduced the keynote speaker for the day, Dan Evans, President of the Citizens Board of Trustees, and President & CEO of IU Health.

Mr. Evans began his remarks with a discussion of the responsibilities of the Citizens Board of Trustees, saying that the group's principal duty is to appoint individuals to the Board of Directors who share the values and community spirit embodied by the Public Charitable Trust. After reviewing major historic milestones in Citizens' history, including legal attempts to abolish the unique Public Charitable Trust, Mr. Evans explained how the Trust has endured for 124 years. He said that standing in the well of the council to defend the Trust he realized that legal arguments are not what preserved the Trust from those who sought to abolish it. Instead, he said public support of the Trust is the ultimate defense that has preserved it. He said public support of the Trust is a direct reflection of the work that Citizens employees and management have done each day to fulfill the original purpose of the Trust -- To add value for improved quality of life and economic development through safe and affordable services to the people of Marion County. He concluded his remarks thanking Citizens Board of Directors, management team and employees for consistently producing high customer satisfaction and operational excellence for the people of Marion County.

Mr. Lykins thanked Mr. Evans for his insightful remarks and reminded those in attendance that the acquisition of the water and wastewater utilities was to expand on the Trust's original purpose to add value to quality of life and economic development in Marion County. Mr. Lykins then introduced the facilitator for the meeting, Martha Summerville, who introduced the first speaker, Kristi Kuhn, Director of Internal Audit for Citizens.

Ms. Kuhn then provided an in-depth presentation on enterprise risk management plans and strategies for the Trust as it expands to include the water and wastewater systems. She said enterprise risk management is being incorporated into the utility integration and implementation process through the coordinated efforts of the Integration Management Office, Change Management Office, the 12 integration teams, and the Steering Committee, which is comprised of company officers.

Ms. Kuhn said management has identified risks and mitigation strategies that are specific to water and wastewater operations and others that are specific to the agreements establishing

this particular acquisition. She explained that water and wastewater system operations carry a number of risks including protection of public health and safety, reputation for the Trust, and financial and productivity impacts. Mitigation strategies include proper SCADA management, training for water and wastewater personnel, retention of trained employees, proper system maintenance and system investments. She added that the large scope of the Combined Sewer Overflow system and the Septic Tank Elimination Program (STEP) present construction management risks that will be mitigated by the Trust's demonstrated track record for effective financial, regulatory and capital program management expertise. She said that creation of a new construction management process will take a holistic look at managing suppliers and will include a focus on value engineering that will be facilitated by auditing of suppliers and contracts, aided by contract management software that will provide real time information about projects.

Ms. Kuhn explained that effective information technology integration presents risks including employee and customer satisfaction, productivity, and the achievement of synergies and associated savings. She said information technology was the foundation of many of the integration plans. Ms. Kuhn said the Information Technology Department has worked with the acquired organizations and integration teams to identify all of the systems and to develop a collaborative implementation plan.

The water/wastewater acquisition also presents increased demands for non-regulated funds for philanthropy and community support, according to Ms. Kuhn. This presents financial and reputation risks for the Trust, especially given a lack of funds from ProLiance Energy. Mitigation strategies include expansion of the chilled water and oil businesses and development of new non-regulated businesses.

Ms. Harden asked Ms. Kuhn how much collaboration was occurring with the current water and wastewater operators on risk assessment. Ms. Kuhn responded that there has been significant collaboration with the current operators, the Department of Waterworks (DOW) and the Department of Public Works (DPW), including employees from Veolia, DOW and DPW serving on several integration teams.

Mr. Appel asked whether an evaluation of assets was considered in risk assessment. Mr. Johnson replied that an initial asset assessment by Malcolm Pirne determined that the systems were rated a 3.5 on a 4-point scale. He said this assessment has been reaffirmed throughout the due diligence and integration process. Lindsay Lindgren added that the first five

years of the capital investment plan calls for increased investments and inspections on the water system.

Mr. Appel asked whether the current definition of adequate system integrity for the water and wastewater system was being accepted by Citizens. Mr. Lindgren responded that Citizens would base system integrity standards on Citizens' own standards and industry standards.

Mr. Appel asked whether water supply represented a significant risk. Mr. Lindgren answered that a 2009 study determined that water supply was adequate, but long-term challenges were evident. The study indicated long-term supply risks might be mitigated by additional wells, pipelines to the Ohio and Wabash Rivers, and comprehensive regional water supply area planning.

Ms. Nobles asked whether security was included in the water risk mitigation plans. Mr. Lindgren said a security team was taking a comprehensive look at security risk mitigation strategies for the water and wastewater systems.

Ms. Lamkin asked how water loss was viewed as a risk. Mr. Lindgren responded that water loss was impacted by many variables including metering and the condition of the system. He said water loss has been identified as a current risk as water loss is currently in the 15-18 percent range, which is above the industry benchmark. He said addressing this issue would require system investments.

Ms. Lamkin asked how changing management of the water and wastewater labs could impact risk. Ms. McIver responded that while current lab processes and services would mostly stay the same, the labs would report through Environmental Stewardship, rather than Operations. This reporting relationship is considered to be more in keeping with proper separation of duties. Citizens also plans to increase use of independent audits of lab testing.

Ms. Kuhn then discussed risks associated with this particular acquisition including risks to customer satisfaction, Trust reputation, finance, employees, and stakeholder relationships. She said deal specific risks were being mitigated by the Integration Management Office, integration teams and the Steering Committee through integrated project plans for day one and post implementation plus 36 months. Ms. Kuhn commented that the Trust has made public commitments to report synergies and doing so in a systematic, verifiable way was critical.

Ms. Kuhn indicated harmonizing the current union structure and span of control was a significant risk impacting employee satisfaction, labor relations, customer satisfaction, financial,

reputation and productivity. Mitigation strategies include work teams working closely with union representatives, and frequent communications through the Change Management Office regarding the new organizational structure and facilities plan.

Ms. Kuhn said achieving optimal rate structures has been identified as a risk impacting customer satisfaction, reputation, and financial and regulatory relationships. Mitigation strategies include effective development of Shared Field Services, centralized engineering and procurement functions, increased focus on rate development processes, updating of satellite community contracts, new capital management processes and contract management software, and implementation of Citizens' credit and collection process.

Proper leveraging of the supply chain has been identified as a risk, said Ms. Kuhn. She said mitigation strategies include development of Shared Field Services, centralized engineering, and integrated purchasing and engineering processes.

Consolidation of the Customer Information System (CIS) and improved meter reading represented risks to customer satisfaction, reputation, productivity, and financial and stakeholder relationships. Mitigation strategies included validation of Veolia's CIS prior to day one, a new bill estimation procedure for day one, and evaluation of automated meter reading.

Mr. Good asked how management believes the consent decree and STEP program costs would be included in rates. Mr. Brehm responded that the utility transfer filing has informed the IURC that more than \$3 billion in capital spending will be required by the waste water system over the next 15 years. He said the agreed upon proposed order for the utility transfer includes an environmental tracker that would allow the utility to automatically recover the consent decree debt service costs in rates on a timely basis. Remaining debt service cost increases, including costs for the STEP, would require regular general rate increases. Mr. Johnson added that the Indiana Consumer Counselor has expressed support for inclusion of STEP costs in rates as outlined in the proposed order.

Ms. Lamkin asked whether management believes it has the staffing capacity to achieve the supply chain synergy goals. Mr. Harrison responded that we believe we do have the capacity to meet supply chain synergy targets. Mr. Ford added that the Supply Chain Team was working closely with Capital Program and Engineering and Booz and Company, Inc., to develop an organization to support supply chain synergy goals.

Mr. Appel asked whether there is additional risk associated with the wastewater system not currently being regulated. Mr. Lykins noted the Commission does regulate wastewater utilities, but none are as large as the Indianapolis system. He added that the IURC has demonstrated an understanding of the significant capital needs facing the wastewater system and the fact that the utility will be seeking annual rate increases.

Ms. Harden asked whether information about increasing rates was being shared with the public. Mr. Whitaker responded that Citizens would share information about the need to raise rates through a very active communications and public outreach program.

Ms. Nobles asked whether the utility thought it would have sufficient oversight over the extremely large capital program for the water and wastewater system. Mr. Harrison said combining the skills of Citizens staff, and water and wastewater personnel with external experts would ensure sufficient oversight.

Ms. Summerville concluded the risk management discussion with a summary of future topics for discussion including construction and project management oversight, security for water resources, watershed management and protection, environmental management issues, non-regulated income, prospects for improved meter reading, increased use of new technology and the importance of fostering optimal relationships and public transparency.

Ms. McIver then gave a presentation providing an overview of the consent decree, STEP and related issues, including the requirements of the federal Clean Water Act. She also provided an overview of watersheds and the water cycle in Central Indiana.

Ms. McIver said the consent decree was the product of a long, negotiated process that considered multiple alternatives to eliminating combined sewer overflows into area rivers and streams. She said the ultimate goal of the consent decree is to make sure we are protecting the surface water for the designated uses defined by the Clean Water Act including for recreation, aquatic habitat and as a water source. Ms. McIver said Citizens becomes a successor interest in meeting all aspects of the consent decree.

Ms. McIver then provided an overview of the coverage areas for the combined sewer overflow and STEP. She also explained the development of the financial capabilities assessment (FCA), a process repeated every five years to determine the community's financial burden for funding. She said the FCA considers median household income, the utility's bond rating, unemployment and property taxes. She said the last FCA determined that falling incomes and

rising unemployment meant the community's financial burden had risen. She added that while the consent decree requirements were firm, the FCA provided some flexibility on how and when requirements would be met.

Ms. McIver also explained that a use attainability analysis provided to U.S. EPA documented that consent decree projects were completed in accordance with the Clean Water Act.

Mr. Good asked how frequently combined sewer overflows occur. Ms. McIver said they occurred every time it rains a quarter of an inch or more in the Indianapolis area. She said the long term control plan would reduce combined sewer overflows from more than 30 per year to 2-4 per year.

Mr. McClelland asked whether upstream communities were significantly contributing to water quality problems in Marion County. Ms. McIver noted that 106 communities in Indiana have combined sewers including several upstream of Indianapolis on the White River.

Mr. Strohl, Vice President, Customer Relationships, asked Ms. McIver what kind of penalties do communities face for violating the Clean Water Act. Ms. McIver said the City of Indianapolis once paid more than \$1 million in penalties for violating the Clean Water Act.

Ms. McIver then provided an overview of the septic tank elimination challenges in Marion County. She said the Marion County Health Department has the authority over septic tanks and helps determine where failing septic tanks present the greatest risks to human health and the environment. Ms. McIver said the current STEP calls for Citizens to convert about 7,400 homes with failing septic tanks to sewer service by the year 2013. She said that would leave approximately 20,000 additional septic tanks for evaluation for replacement at a cost of more than \$500 million.

Ms. Lamkin asked whether the utility transfer case adopts the current wastewater rates. Ms. McIver responded that the case requests the current wastewater rates be adopted including the approved rate increases on January 1, 2012 and January 1, 2013.

Mr. McClelland asked what the cost of the 7,400 septic tank replacements was. Mr. Harrison said the total cost was \$106 million. Ms. McIver added that customers are charged a \$2,500 sewer connection fee and on average must spend another \$2,500 to install a sewer line from the home to the main.

Ms. Lamkin asked how Citizens was engaging stakeholders for planning the combined sewer overflow and STEP. Ms. McIver said meetings are being held with environmental, watershed alliance, well field management, technical advisory and permit holder groups in the planning process.

Ms. Lamkin asked to what extent private wells present safety and water quality issues in Marion County. Mr. Lindgren responded that private wells were failing in various parts of the county and Citizens was developing plans for providing cost effective service to unserved areas.

Mr. Appel asked to what extent pollutants are part of risk mitigation and operations. Ms. McIver said pollutants are part of risk mitigation. Mitigation strategies include extensive monitoring for pollutants such as atrazine and operational steps such as carbon filtering.

Board members then expressed topics for future conversations including improved understanding of health department oversight and proactive communications regarding the need to raise rates due to the combined sewer overflow and STEP.

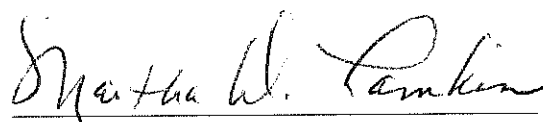
Ms. Lamkin then recognized visitors for public comment.

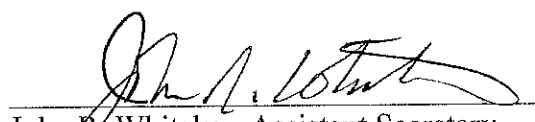
Mr. Glenn Pratt, representing the Sierra Club, made remarks urging the board fully understand the challenges presented by meeting the requirements of the consent decree and the STEP. He also urged the board to be aware that the proposed management structure for the combined utility would put pressures on management personnel to devote proper time and resources to multiple utility responsibilities.

Ms. Patricia Andrews made remarks expressing support for the STEP and for the expansion of the water system to unserved areas. She described the difficulties now evident in some areas of the city that do not have water and wastewater services. These include sewage backups into yards and homes and contaminated wells. She said such third world problems should not exist in a world class city such as Indianapolis.

There being no further business, the public meeting adjourned at 2:30 p.m. EST.

An Executive Session of the Board was then convened.


Martha D. Lamkin, Chairman


John R. Whitaker, Assistant Secretary