Mayor Ballard Announces Innovative Partnership with Citizens Energy Group

Utilities to Remain Local and Publicly Owned; More Than $425 Million in Funding Anticipated for Infrastructure Improvements

Indianapolis, IN – Mayor Greg Ballard signed a memorandum of understanding (MOU) today to transfer the City of Indianapolis’ water and wastewater utilities to Citizens Energy Group (Citizens), a public charitable trust operating like a not-for-profit for community benefit.

“With this agreement, I am rejecting private ownership of our water and wastewater system while embracing the benefits that come from private sector efficiency and expertise, and putting water and wastewater utilities under a public trust,” Mayor Ballard said. “We look forward to working with the City-County Council and the IURC to complete the transfer and realize benefits for utility customers throughout Central Indiana.”

Pending negotiation of final agreement and Board of Waterworks, Board of Public Works, City-Council Council and IURC approval, the City will receive more than $425 million in connection with the transfer of the utilities to Citizens. Upon receipt of necessary approvals and negotiation of final agreements, the City will receive a $262.6 million payment from Citizens ($170.6 paid at closing and $92 million paid on October 1, 2011), plus up to an additional $50 million from the wastewater general fund that will remain with the City upon the transfer of the wastewater system.

In addition, the proposed transfer will increase the annual payment in lieu of property taxes (PILOT) as a result of the significant capital spending associated with the Wastewater System. The City will monetize the increase of PILOT payments in the form of a bond issuance with anticipated proceeds of $140 million, with such proceeds used by the City to fund necessary infrastructure improvements (with Citizens assuming the obligation to pay the increased PILOT). In addition, Citizens agrees to assume approximately $1.5 billion of City debt (combined debt of waterworks and wastewater).

“This is a big win for the City of Indianapolis. It represents a once-in-a-generation opportunity to minimize future utility rate increases and to provide much-needed funding for deteriorating infrastructure such as streets, bridges and sidewalks,” Mayor Ballard said. “Today, we took an important first step toward greatly improving quality of life for our residents, while encouraging job creation and economic growth in our community for many years to come.”

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The MOU culminates more than seven months of transparent study and public deliberation by City officials and the Mayor’s Infrastructure Advisory Commission. Last July, the City issued a Request for Expression of Interest (REI) asking qualified firms to provide ideas and solutions to the infrastructure challenges facing the City, while identifying potential efficiencies in the operation of the water and wastewater utilities. Citizens was selected from 24 local, national and international companies responding to the REI.

"While it is clear that there are several review and approval processes ahead, the arrangement being announced with Citizens appears to be consistent with the criteria and advice we have provided to the mayor and his staff regarding the water and wastewater utilities," said William Blomquist, chair of the Infrastructure Advisory Commission and dean of the School of Liberal Arts at IUPUI. "Among the most important goals are that ratepayers see smaller future increases, the utilities are managed well for the long term, and the City gains some capital with which to address pressing infrastructure needs."

Carey Lykins, President & CEO of Citizens Energy Group, said the proposed utility transfer is a historic moment for the greater Indianapolis community. "More than a century ago, civic leaders, including Colonel Eli Lilly, put our community’s natural gas system into the Citizens Public Charitable Trust to protect it from sale to profit-making corporations and the uncertainties of changing political forces. The transfer proposed today heeds the lessons of history by keeping our community’s water and wastewater systems in the hands of the people, so they can be managed for their benefit," Lykins said.

Citizens estimates that by the year 2025 combined water and wastewater rates will be 25 percent lower under its ownership compared to other options available to the City. Lower water and wastewater rates will be achieved through an estimated $40 million in annual savings available by combining operations of the water utilities with Citizens’ gas, steam and chilled water systems.

Currently, the water system is governed by the Board of Waterworks and operated in a partnership with Veolia Water. The wastewater system is governed by the Board of Public Works and operated in a partnership with United Water.

After the transfer, the water and wastewater utilities will be governed by the Citizens Energy Group Board of Directors, a non-partisan body that focuses on the needs of customers and the community. Further accountability will be assured because utilities under Citizens are regulated by the Indiana Utility Regulatory Commission (IURC), and other agencies including the Indiana Department of Environmental Management and U.S. Environmental Protection Agency (EPA).

“We know customers want low rates and outstanding service. Citizens has been rated among the best utilities in the Midwest for customer satisfaction and operational excellence. Veolia and United are experienced operators as well, and we anticipate they will continue to play significant roles in the operations of the water and wastewater utilities. We look forward to working closely with Veolia and United on the future operations of the utilities with a focus on ensuring service quality, while confirming operating synergies,” Lykins said.

Moving forward, Citizens is committed to both utility and community investments. Citizens will
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make investments in utility infrastructure to ensure system reliability and compliance with federal environmental mandates, including the City’s Consent Decree with the U.S. EPA. Specifically, Citizens will invest the necessary resources to address the City's combined sewer overflow problem that leads to the pollution of the White River and other streams.

Citizens has put nearly $50 million of revenue from non-utility companies it owns back into the community over the past decade to fund gas customer rate reductions, low-income energy assistance, home weatherization programs, neighborhood redevelopment projects and donations to a wide range of non-profit organizations.

The Mayor intends to file legislation for the utility transfers with the Indianapolis City-County Council on April 16. In addition to approval by the City-County Council, the utility transfer must be approved by the Board of Water Works, the Board of Public Works and the Indiana Utility Regulatory Commission. Full approval would likely take place in late 2010.

The City’s water system currently serves more than 300,000 households in Marion County and the six surrounding counties. The wastewater system serves more than 230,000 households, mostly in Marion County. Citizens provides natural gas, steam and chilled water service to more than 266,000 customers in the Indianapolis area.

To obtain further input on the utility transfers, the City plans to hold public meetings throughout Indianapolis. More information about the utility transfers and the schedule for public meetings will be available at www.indy.gov/utilities or by calling 317-327-4MAC.

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