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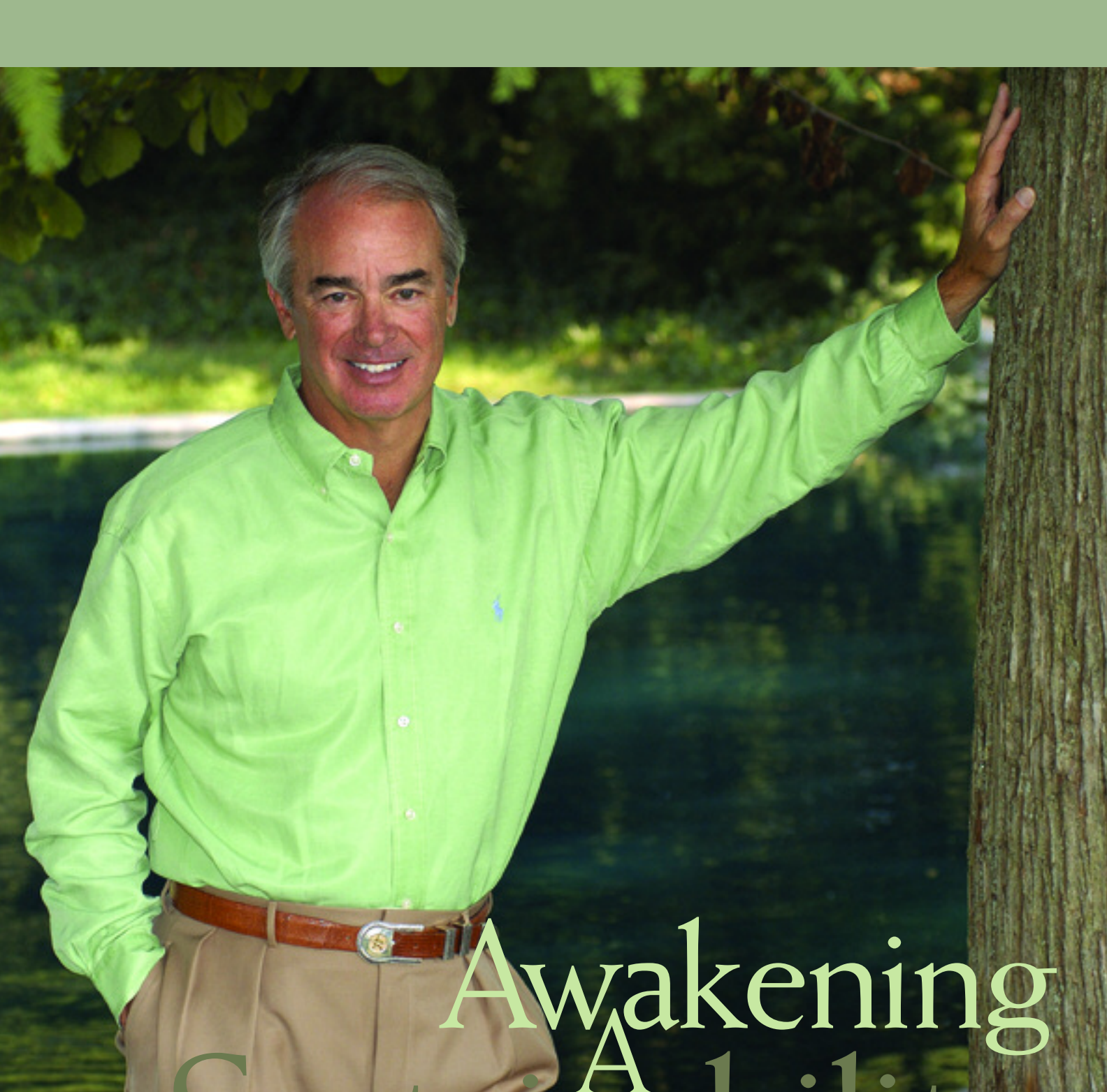
Cinergy's **Jim Rogers**
Progress Makes Perfect

INSIDE

HOW TO MAKE THE MOST OF "GREEN CHIC"

WHY RENEWABLES ARE GETTING A BIG BOOST FROM RISING ENERGY PRICES

GET READY FOR A NEW ERA OF BUSINESS-TO-BUSINESS PARTNERSHIPS



Awakening Sustainability GIANT

BY KATIE SOSNOWCHIK WITH JOSEPH FIKSEL

“As I look out over the next two years, **this country needs an energy and environmental road map for the future**... we can't wait until the next crisis to deal with these things; we need to deal with them now so that we can have a sustainable future. We need to lead on environmental issues, not follow.”

— *Jim Rogers*

In 2001, had you asked any of Cinergy's 7,000 employees to define the term “sustainability,” most would have been hard-pressed to provide an answer. Times have changed dramatically at this Cincinnati, OH-based gas and electric utility, however. Today, employees can not only easily define the concept, they can also tell you how their day-to-day actions contribute to it. Above all, they can point to a respected external rating system—the Dow Jones Sustainability Indexes (DJSI)—to prove that their actions speak as loudly as their words.

That's pretty impressive for a company that only recently catapulted into the sustainability limelight. There was no one solitary event signaling an upheaval in Cinergy's corporate philosophy, or a crisis that forced a transformation in its business practices. Rather, it was more of a gradual awakening to what the concept represented and a curiosity of sorts about how its existing programs might apply. In fact, it was Cinergy's desire to have an outside perspective on the social, economic and environmental aspects of its business practices that prompted it to create a multi-disciplinary team to work together to apply for the indexes in June 2003.

“There were not that many places in the U.S. where you could go to have your program gauged by an external authority,” explains John Stowell, vice president, Federal Affairs, Environmental Strategy & Sustainability. “The DJSI appeared to be the gold standard for that kind of an evaluation. So when we applied, we did so not thinking we would be named to the list, but to get some idea where we stood vis-à-vis other industries that were already deeply into sustainability. Basically we were looking for a report card.”

And what a report card it was. When the results were announced in September 2003, Cinergy's overall score in the utility category was the highest rating for any U.S. utility, and the company ranked third internationally. It was named to the DJSI again this year—one of only three utility companies in the U.S. and 16 worldwide to be included.

The process has been an eye-opener.

“The actual process of applying for DJSI forced us to stop and do an assessment of where we are and what we are doing,” says CEO Jim Rogers. “It's like a lot of things in life when you stop and reflect—it helps you gain insight and wisdom. The whole process gave us some *ah-hahs!* about where we are. But once you have been given that recognition, it raises the bar. What creates the greatest cynicism is when you have been given recognition and then you don't live up to it. So I believe that looking out to the future, now that we have been named to it two years in a row—the fact is that we have to be more aggressive going forward. As Will Rogers says, ‘You might be on the right track, but if you're sitting still you will get run over.’ ”

“I have been with this company for 18 years and knew that a lot of our people were doing a lot of good work, but until you try to bring this all together under one hat, you don't know how productive your company is, you don't know how embedded your company is in the communities it serves and the enthusiasm people have when you ask them to tell you what they are doing,” Stowell adds.

The bottom line, says Rogers, is that Cinergy now has a “new way of looking at our business.”

It also has its own unique definition of the term “sustainability” (responsible actions lead to long-term success) and a new way of applying the concept (The Hand of Sustainability—see page 15), which goes beyond the familiar three-legged stool of economic, environmental and social responsibility. Cinergy has also implemented what some might argue is the most important element of all: an innovative internal communications program centered around a Sustainable Landscape image map that raises employee awareness of Cinergy’s sustainability initiatives and clearly indicates how each employee contributes to their success.

“One of the things I discovered is that sustainability is a morale builder because it allows people to talk about the contributions they are making not just to the company, but to the community,” Stowell says. “And when that’s all brought together as part of the business plan, they suddenly realize that what they are doing has a loftier goal than making a dime. The dime’s important—but there’s more to it than just the dime.”

Sustainability, writes Rogers in the company’s recently published and first-ever sustainability report, is about “creating economic opportunities for our customers. It’s about improving the quality of life in our communities. It’s about looking inward, too, nurturing a quality workplace and workforce and ensuring our company maintains the highest of ethical standards. Sustainability should not be

mistaken for corporate altruism. There are solid business reasons for focusing our business on ‘the right thing to do.’ We’ve been doing it for years and it’s been paying dividends.”

Jim Rogers and John Stowell recently spoke with *green@work* about Cinergy’s exploration into the sustainability arena—and what lies next on its agenda.

WHAT ARE SOME OF THE MOST PRESSING ENVIRONMENTAL CHALLENGES TO YOUR BUSINESS TODAY?

ROGERS: For a six-year period, I chaired the environmental policy committee of our industry trade association, the Edison Electric Institute. As chair of that committee, I have spent a great deal of time digging into the details of these issues and trying to have an understanding of their impact around the country. For instance, 52 percent of the electricity in the United States comes from coal. Cinergy burns 30 million tons of coal per year to generate our electricity. So we are very dependent on coal as a fuel source. Obviously when you burn that much coal, you have significant emissions of sulfur dioxide [SO₂], nitrogen oxide [NO_x] and mercury. If you go back to 1990, we spent about \$1.7 billion reducing these emissions; as we look out over the next four years, we estimate that we are going to spend between \$1.6 and \$2.1 billion for reductions. So one of our largest challenges today is to provide reliable electricity at low cost with the smallest environmental footprint possible.



Cinergy Corp. (NYSE:CIN) has a balanced, integrated portfolio consisting of two core businesses: regulated operations and commercial businesses. Cinergy’s regulated public utilities in Ohio, Indiana and Kentucky serve 1.5 million electric customers and about 500,000 gas customers. In addition, its Indiana regulated company owns 7,000 megawatts of generation. Cinergy’s competitive commercial businesses have 6,300 megawatts of generating capacity with a profitable balance of stable existing customer portfolios, new customer origination, marketing and trading, and industrial-site cogeneration.

There is also great uncertainty today as to what future rules will be regarding SO₂, NO_x and mercury emissions. The EPA has two rules pending—one on sulfur dioxide and one on mercury—the first expected to be out later this year; the second released the first part of next year. So as I try to project what we are going to spend, I am doing so in an environment of uncertainty about future rules.

WHAT ABOUT CO₂ REDUCTIONS?

ROGERS: In regard to CO₂, my starting point on this issue is that one day we will live in a carbon-constrained world. So then the question becomes: What steps should we be taking today to prepare for that? One thing that we have done is to make a commitment to reduce the CO₂ emissions from our plants by five percent off our 2000 base level—and to achieve that by 2010. I think it’s do-able—we wouldn’t have made the commitment unless we thought that it could be done.

Another thing that we are doing is negotiating with GE and Bechtel to build a coal technology plant that uses old technology in a new way. It’s called Integrated Gasification Combined Cycle or IGCC. As luck would have it, there were two demonstration projects built in the early ‘90s and we happened to participate in one of them—the Wabash River Station. So we want to convert this coal plant to receive coal gas. Coal gas allows you to take out more SO₂ than at a traditional

DJSI TAPS CINERGY FOR SECOND YEAR

For the second straight year, Cinergy Corp. has been named to the Dow Jones Sustainability Indexes (DJSI), an international benchmark for excellence in social, economic and environmental leadership. Cinergy is one of only three utility companies in the United States, and 16 in the world, to be named to the DJSI, which covers the top 10 percent of the 2,500 largest companies in the world, providing asset managers with benchmarks to manage sustainability portfolios.

Launched in 1999, the DJSI track the corporate citizenship performance of the leading sustainability-driven companies worldwide through detailed surveys that provide a thorough assessment of general and industry-specific sustainability criteria, which are verified by an external auditor.

To access Cinergy’s first annual Sustainability Report, visit: www.cinergy.com/sustainability/.



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—*John Stowell*

plant, you can also take out the NO_x, and you can also reduce the mercury at a much lower cost. The unique advantage of an IGCC plant given the technology today is that you’ve also got the ability to significantly reduce the CO₂ from that plant. The technology isn’t completely proven, but what we are planning to do is apply for DOE dollars and try to work on carbon sequestration at this plant. It’s not only in a region of Indiana where we have the grid infrastructure, but it’s also in a part of the state where the geology is very receptive to sequestration—we can try to re-inject carbon into the earth. There’s a lot of debate about whether it can be done, there’s a lot of debate about whether it will ever be economic to do, but we feel that we need to experiment.

AS A COAL BURNER, CINERGY IS OBVIOUSLY A TARGET FOR MANY ENVIRONMENTAL GROUPS.

HOW DO YOU CONVINCHE THEM OF THE SINCERITY OF YOUR COMMITMENTS IN THIS AREA?

ROGERS: I understand their motivations. I have learned to frame the issues from the perspective of all of stakeholders: consumers, investors, employees, the communities we serve and also broader societal concerns. We need to consider the interplay of goals and objectives from each stakeholder group, which sometimes are at odds with one another. We need to calibrate the conversation in terms of how it will affect everyone involved. I believe that “the perfect is the enemy of the good.” If you strive to make everything perfect, you will never make progress. Five or six years ago, I tried to get more

aggressive emission reduction legislation passed—to tie SO_x, NO_x and mercury all together—and to spread reductions over a period of time. If we had been able to pass that, we would have greater reductions in our plants today than we do under the current law. But everybody sort of stiffed the idea in the hopes that eventually they would get everything they wanted tomorrow, rather than get some of it today. We can’t just shut down all the coal plants—when 52 percent of all electricity in this country comes from coal—it’s just not doable. What’s better is to determine how to make sure all the incremental coal plants are really good, how to retrofit some and how to shut down others that are really old. That gets us on the path to cleaner air sooner—and it allows us to make real progress.

WHAT’S YOUR MOTIVATION TO DO ALL THIS?

ROGERS: There’s a couple different motivations. I started my career as a consumer advocate fighting utility rate increases. And I spent time as a federal regulator. As a result, I have come to the realization that

I am a pragmatist. And the pragmatist in me says that we have certain environmental goals in this country, and those goals are only going to get greater and we need to plan for that. So let's be pragmatic about how the rules are evolving and get positioned to do it in the way that has the lowest cost possible. Let's start planning to be consistent with that evolution.

From a personal view, I apply what I call the "grandchildren test." Simply put, when my grandchildren get to be my age, will they say that their granddaddy made good decisions that remain good decisions. Will these decisions stand the test of time? I have been CEO for 16 years and have had a lot of pressure to earn quarterly earnings and annual earnings—but I have a self-imposed pressure to make good decisions for five, 10 or 15 years out.

WAS PREPARING YOUR FIRST SUSTAINABILITY REPORT SIMILAR TO THE DJSI EXPERIENCE?

STOWELL: The DJSI experience brought a lot of people here in the company into the sustainability family. And so when we sat down to create our sustainability report, we decided to follow the advice of all the



Cinergy uses this Sustainable Landscape image map to illustrate how the company serves the needs of its many stakeholders. Employees can easily see how their own individual actions contribute to the company's overall sustainability initiatives.

people we talked to when we were preparing our benchmarking study: Make this program your own—don't let someone create it for you. In the end, we came up with five aspects—instead of the famous three-legged stool—because we recognized that we also have a unique economic development arm and a unique way of

dealing with our employees that needed to be acknowledged. So the sustainability report that we have prepared built off those five aspects; when we focused on each one, it really wasn't that hard to put together. What I hope to improve next year is for our metrics to be stronger, so we are now looking at the Global

A VOLUNTARY REDUCTION

Global climate change is perhaps the greatest environmental challenge for Cinergy as a coal-burning company. It is the sixth largest utility emitter of CO₂ in the United States, burning nearly 30 million tons of coal in its facilities, which emit 66.5 million tons of CO₂ a year. And while it burns coal because it's the most economical way to produce energy, the company also recognizes that it needs to do so in a way that's as environmentally benign as possible.

As a result, Cinergy announced in September 2003 a voluntary greenhouse gas reduction program that calls for the utility to reduce or offset its greenhouse gas emissions between 2010 and 2012 to levels that are five percent below 2000. The company also committed to invest \$21 million for seven years on projects that will allow exploration of the alternative options for reducing CO₂ and other greenhouse gas emissions on its electric generating, transmission and distribution systems, as well as its natural gas transmission system.

Fourteen projects totaling nearly \$3 million have been selected for 2004 and will provide reductions and offsets of approximately 360,000 tons annually of CO₂. Developed in collaboration with Environmental Defense, the 2004 projects include:

- ▶ eight projects that will improve the efficiency of Cinergy's electricity generating units;
- ▶ three renewable energy projects;
- ▶ an energy conservation project in concert with a Cinergy customer;
- ▶ a carbon sequestration project;

- ▶ the purchase of five hybrid gasoline/electric energy vehicles;
- ▶ and a research project to analyze greenhouse gas emissions limitations and related technology.

In keeping with Cinergy's plan to spend at least two-thirds of the \$21 million dollars for on-system projects, more than 75 percent of the 2004 money was allocated to projects that will directly reduce Cinergy's CO₂ emissions. Included are seven heat rate improvement projects at the company's generating stations. The projects are designed to reduce coal consumption by 142,000 tons annually, thus reducing CO₂ emissions and other pollutants. The company is also installing new software at its hydroelectric facility at Markland Dam in Indiana to increase its efficiency.

Renewable energy projects include donation of a photovoltaic system for the Cincinnati Zoo's new education center, as well as a photovoltaic array at PSI Energy's customer service center in Bloomington, IN. A wind turbine is being installed at the Wolcott rest area on Interstate 65 in Indiana.

In the carbon sequestration area, Cinergy is funding the purchase of trees for a 300-acre reforestation project being managed by the Nature Conservancy in Harrison County, IN. The project will sequester approximately 75,000 tons of CO₂ annually.

Finally, to create additional tools for analyzing future climate change policies, Cinergy is funding research by the Electric Power Research Institute to explore and analyze critical factors in creating effective, efficient greenhouse gas emissions limitations and technology policies.

Reporting Initiative. We will continue to tell “stories” because the public understands those and it humanizes the information; what we will attempt to do is improve the metrics of the report.

HOW HAS YOUR OWN JOURNEY IMPACTED YOUR RELATIONSHIPS WITH YOUR SUPPLIERS?

STOWELL: We just held our first sustainability awards last year, but we did it before we actually completed our thinking regarding the five aspects of sustainability. So going forward we will focus on those five aspects. We’ve had environmental awards with our suppliers for a number of years, but we will be changing from a strictly environmental focus to a sustainability focus. Because this business strategy is important to us, our suppliers recognize that it should be important to their business planning as well. Our last questionnaire did ask what kind of business practices they had engaged in during the last calendar year that they would consider to be sustainable and to provide examples. Some questions were environmental, but some were also related to social and economic issues.

WHAT’S NEXT ON YOUR AGENDA?

ROGERS: I believe we need to help create a national conversation about environmental



Cinergy’s unique look at sustainability is symbolized by the human hand—a small hand representing future generations held by a larger hand representing its current responsibility to create a better world. The five fingers represent Cinergy’s key aspects of sustainability: environmental improvement, social responsibility, economic progress, workplace quality, and ethics and governance.

Cinergy Corp., the Kentucky Department of Fish and Wildlife Resources, Environmental Synergy Inc. and The Conservation Fund are joining forces to create a market-based conservation solution that will help offset the environmental impacts of greenhouse gases, provide new fish and wildlife habitats, and bring recreation-driven economic benefits to Kentucky. With financial support from Cinergy and the Kentucky Department of Fish and Wildlife Resources, The Conservation Fund will acquire and conserve 900 acres for inclusion in the Obion Creek Wildlife Management Area, protecting critical habitat and generating new outdoor recreation opportunities such as hiking, fishing and hunting.

Cinergy’s financial contribution to the Kentucky project is part of the company’s voluntary greenhouse gas emissions reduction project.

Cinergy will fund the reforestation of a total of 730 acres from converted agriculture land to native bottomland hardwood forest. Over the next 70 years, these trees will capture approximately 292,000 tons of CO₂ equivalent from the atmosphere, generating “carbon credits” that will be retained by Cinergy.

The partnership is intended, said Larry Selzer, president of The Conservation Fund, as a model for using voluntary and market-driven approaches to address both climate change and habitat protection.

In addition to the Obion Creek project, Cinergy is a founding partner in The PowerTree Carbon Co., a multi-million dollar initiative launched in April to address climate change, improve water quality and restore critical wildlife habitat across the south. The voluntary consortium is comprised of 25 leading U.S. energy companies—almost 30 percent of the energy industry—that have committed \$3 million to establish six carbon sequestration projects in Louisiana, Mississippi and Arkansas. The group will plant enough trees to eventually capture more than two million tons of CO₂ from the atmosphere. Participating PowerTree companies expect to receive tradable credits for the carbon that will be locked inside the trees, and either use those credits to offset emissions or sell them to other companies.

and energy issues. Our country is unique in that we’ve never adopted a national environmental policy or a national energy policy where the people that create that policy look at the interplay between energy and the environment—these issues are interrelated in so many ways. For example, we could go to a renewable portfolio of wind and solar to reduce emissions, but today that brings prices way up. Then there’s the whole issue of our aging nuclear fleet—the news headlines these past few weeks regarding problems with nuclear plants prove there’s some legitimate issues that need to be addressed there. There are also issues that need to be addressed about how we use coal and how we can reduce those emissions. This national conversation needs to be about looking at what we are trying to achieve in terms of fueling our economy, maintaining our standard of living, but at the same time making sure we have clean air.

There is so much uncertainty in our industry; so much of what I call “stroke of the pen” risk, where the value of an enterprise can be changed by the signing of a law or a regulation. I think to be able to manage during that uncertainty is one of our biggest challenges, but resolving that

uncertainty is about trying to stimulate a national conversation that leads to comprehensive environmental and energy legislation. As I look out over the next two years, this country needs an energy and environmental road map for the future. Think of all the dependency on foreign oil that we have. Think about our growing dependency on foreign sources of natural gas. Think about our environmental goals. As a country we can’t wait until the next crisis to deal with these things; we need to deal with them now so that we can have a sustainable future. We need to lead on environmental issues, not follow. We need a plan—and if that plan translates into regulations, then we need more regulations. We need this plan so that we can build our strategies and make our investments in such a way to match up with the energy and environmental goals of our country. Right now it’s hard to find anyone to tell us what those goals are. @

Dr. Joseph Fiksel, principal and co-founder of Eco-Nomics LLC, a sustainable business practices consultant, contributed much of the background information for this report. Fiksel’s clients include companies in a wide array of industries, as well as leading NGOs.