

Citizens Thermal Update

A Division of Citizens Gas & Coke Utility

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Circle Tower Cools its Clients

With temperatures soaring into the upper 90s during early August, the tenants of the historic Circle Tower Building in downtown Indianapolis breathed a big sigh of relief when chilled water service from Citizens Thermal Energy began cooling the building.

"We picked a great time to start chilled water service. Our clients were complaining about the heat and humidity in the building during the very hot weather we were having in August. The old chillers we were using to cool the building simply couldn't keep up with the heat," said Brenda McClarnon, Property Manager for Winthrop Management Company, the firm that provides facility management services to the 77-year-old Circle Tower.

When the chilled water service began, it seemed "almost too good to be true," according to McClarnon. "You could instantly tell a big difference. It was cool and the high humidity levels disappeared quickly. The clients in the building then began to tell us how wonderful it felt in the building rather than calling to complain," McClarnon said.

The decision to use chilled water from Citizens Thermal came down to efficiency and comfort, said McClarnon. "The chiller we were using was about 35 years old and on its last leg. It was requiring a lot of maintenance and it wasn't doing the job. The decision to use chilled water was part of an ongoing project to renovate the building and make it more appealing to current and future clients. Using chilled water from Citizens Thermal gave us a more comfortable environment and allowed us to retire the old chiller, which eliminated a costly maintenance contract," McClarnon said.

Bill Petty, Manager of Market Development, explained the superior performance of chilled water from Citizens Thermal is a matter of simple physics. A properly operating chiller produces water at about 45 degrees, but the old chiller was producing water as warm as 60 degrees at peak load conditions. Citizens Thermal consistently delivers chilled water between 40 and 42 degrees. "That's why we can provide instant relief," Petty said.

The decision to utilize Citizens Thermal also was based on Winthrop Management's existing relationship with the company. "Circle Tower has been a long-time steam customer of Citizens Thermal. The fact that we have received excellent steam service from Citizens Thermal made it easier to choose their chilled water service to replace our aging chiller," McClarnon commented.

In addition to new chilled water service, other renovations are making the 111,587-square-foot building more comfortable and energy efficient. New windows are being installed and great care is being taken to make repairs to the stunning limestone art deco facade of the 17-floor structure.

Housing law and other professional offices on the upper floors and retail on the lower floors, Circle Tower is now positioned for many more years of service to the community.



Brenda McClarnon, Property Manager for Winthrop Management Company, and Bill Petty, Manager of Business Development for Citizens Thermal, discuss the performance of the new chilled water service for the Circle Tower Building.

Circle Tower at a Glance

Location:	Monument Circle, Downtown Indianapolis
Opened:	1930
Height:	17 stories, 190 feet
Style:	Art Deco
Architect:	Robush & Hunter, Indianapolis firm responsible for many eclectic buildings including the Murat Shrine Temple, the Indiana Shrine Theatre and the Columbia Club Building.

Operations Update

Chilled Water Sets New Record

In response to one of the hotter Augusts in recent memory, Citizens Thermal Energy provided more than 3 million ton hours of chilled water, a new record for the growing system serving the downtown area.

With temperatures soaring into the upper 90s, the system set a one-day peak record on August 8th when it provided an hourly production rate of 46,041 tons. This eclipsed the previous peak of just over 40,000 tons set in 2006.

“Our chilled water service performance this summer is especially impressive when you consider that the total capacity of our equipment is 48,600 tons. This means that we had nearly all of our equipment operating at various times during the summer,” said Jamie Dillard, General Manager, Engineering and Facility Operations for Citizens Thermal.

Citizens Thermal will be working throughout this winter to prepare for next summer. “We are planning expansions of both the Illinois Street and West Street Chilled Water Plants designed to accommodate ongoing growth on the system from existing customers like the Clarian Health system and new customers like Lucas Oil Stadium,” Dillard said.

Airport Project Nearing Completion

Citizens Thermal Energy and BHMM Energy Services are nearing completion of a \$30 million project to provide utility services to the new Midfield Terminal at Indianapolis International Airport.

The project has included completion of the following:

- The boring of a 2000-foot, 9-foot diameter tunnel beneath a runway and taxiways.
- Installation of 24-inch chilled water and 8-inch hot water piping.
- Connecting the piping between the new terminal and the Central Energy Center.

Chilled water service work is now complete and steam service work is expected to be complete by November 1.

The \$1.1 billion airport improvement project features a new terminal building, new highway access, new and improved parking and support facilities and improved utilities and airside operations. The new airport terminal is scheduled to open in late 2008.

Work Continues on MACT Compliance Project

Citizens Thermal Energy (CTE) continues making significant strides in its two-year effort to meet the U.S. EPA's Maximum Achievable Control Technology Standards (MACT) for industrial and commercial boilers and process heaters.

The final rule with respect to boilers and process heaters applies to emissions of arsenic, cadmium, chromium, hydrogen chloride, hydrogen fluoride, lead, manganese, mercury, nickel and various other hazardous air pollutants. Compliance with the new MACT standards is requiring a \$14 million investment in emission control technology at Citizens Thermal facilities. Project milestones already reached include:

The original compliance date for the U.S. EPA's MACT standards

for Industrial Boilers was September 13, 2007. As described in past articles, Citizens implemented numerous projects at the Perry K plant to ensure compliance with this rule no later than September 13. However, the U.S. Court of Appeals for the District of Columbia vacated the EPA rule late this summer, voiding the standards prior to implementation.

Because contracts were signed and dollars committed, Citizens continued with the projects scheduled for this summer, including the installation of low NOx burners on Boiler #12 and the coal feeders for the stoker-fired boilers. Both of these projects will contribute to improved efficiencies at the plant regardless of the status of Boiler MACT.

Citizens Thermal Energy anticipates being an active participant in the EPA's rulemaking process to respond to the Court's actions to ensure that the work done over the past two years is taken into account in future standards.



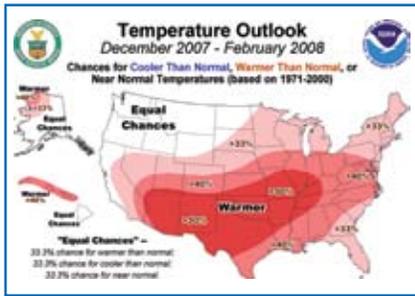
Facelift for Perry K

Citizens Thermal continues to make investments in the art deco exterior of the Perry K Steam Plant to improve its appearance. The brick façade of the facility was recently cleaned, thus restoring the rich color of the brick. Citizens also is enclosing the structural steel that supports the precipitators of the facility. This enclosure will eliminate much of the roosting areas for the thousands of starlings that spend much of the winter in the downtown area.

Steam System Maintenance

Citizens Thermal completed maintenance on its high pressure steam line from Senate Avenue to 16th Street, which required a large portion of the steam system to be shut down on September 3 during the Labor Day weekend. Over 50 CTE employees and contractors worked more than 1,200 man hours to complete this major outage. Crews worked through the night to replace 16 isolation valves, 45 trap valves and 4 expansion joints. Citizens apologizes for any inconvenience the system outage may have caused.

Except for Oil, Energy Prices Stabilizing as Weather Stays Warm



Although oil prices have been hitting record highs recently, natural gas and coal prices have been relatively stable this year as the world continues to experience record warm temperatures across all four seasons.

Meanwhile, the National Weather Service (NWS) is predicting a warmer than normal winter for the Midwest. NWS's heating degree forecast for December through February predicts a 2.8 percent warmer winter than the 30-year average, but 1.3 percent cooler than last year's very warm winter.

"The big concern this winter may be the persistence of drought across large parts of the already parched South. And while December through February is likely to be another milder-than-average winter for much of the country, people should still expect some bouts of winter weather," said Michael Halpert, head of forecast operations and acting deputy director of the Climate Prediction Center of the National Oceanic and Atmospheric Administration.

A mild La Niña weather event, which involves the cooling of water across the central Pacific Ocean, is the primary driver of the prediction of a warmer than normal winter across the U.S. La Niña events typically cause warmer and drier than normal winters in the Midwestern U.S.

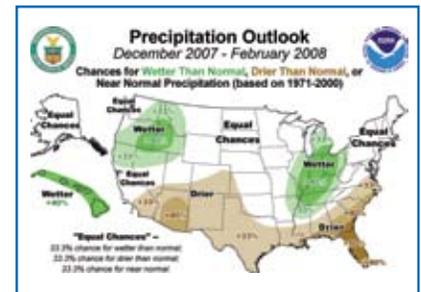
Illinois basin coal prices have stabilized about \$32 per ton, after selling for more than \$40 per ton last April. Coal production this year has been relatively flat, with this same pattern expected in 2008, according to the U.S. Energy Information Administration.

After wild volatility in 2005, natural gas prices have declined and stabilized over the past two years, with the average NYMEX price falling from \$7.22 per MMBtu in 2006 to \$6.78 through October 2007.

Oil prices continue on the rollercoaster pattern that started in 2005 after Hurricanes Katrina and Rita. Prices have ranged from the low \$60 per barrel range in late 2006 to more than \$80 per barrel recently.

Citizens Thermal Energy continues to primarily use coal at its Perry K Steam Plant. Recent plant improvements have raised efficiency levels while improving environmental compliance.

While current forecasts seem to bode well for energy consumers, the uncertainty of weather and geopolitical forces make any prediction on energy prices a somewhat uncertain science.



Customer Outlook

Citizens Thermal to Serve Convention Center and Stadium

During the next three years, Indianapolis is taking a giant leap forward in terms of convention and meetings facilities. An expanded convention center, a new football stadium and a new 1,500-room hotel complex, will all come on line by 2010.

Overall, the stadium and convention center expansion will give Indianapolis a facility that has 747,000 square feet of space for trade shows and 131,000 square feet of meeting space. It will be the 17th largest facility in the country, but physically connected via skywalks to more hotel rooms (4,700) than any convention center in the U.S.

Citizens Thermal Energy has already begun the process of planning and constructing system expansions to accommodate the steam and chilled water needs of these new facilities.



Citizens Thermal Reaches Rate Settlement

Citizens Thermal Energy has reached a settlement agreement with the Indiana Office of Utility Consumer Counselor and the Citizens Industrial Group regarding its first increase in base steam rates in 14 years.

The settlement agreement awaits final approval from the Indiana Utility Regulatory Commission. Under the agreement, Citizens Thermal's Rate 1 base steam rates would increase on average 18.92 percent effective upon Commission approval of the agreement and on average another 5.27 percent on December 1, 2008. Rate 2 base steam rates would increase 20.09 percent effective upon Commission approval of the agreement and on average another 7.64 percent on December 1, 2008.

In addition to the rate adjustment, the settling parties agreed that Citizens Thermal should change the frequency of fuel cost adjustment filings from annually to quarterly. Citizens Thermal passes on fuel costs to customers on a dollar-for-dollar basis with no profit added. Citizens believes changing fuel adjustments to quarterly will provide a more market-responsive



fuel cost rate, thus sending you more appropriate price signals as you plan your energy budgets.

"Let me assure you that Citizens Thermal has worked very hard over the past 14 years to avoid having to raise steam rates. However, a rate increase has become unavoidable due to increasing expenses for operations, maintenance, system efficiency upgrades and investments necessary to keep the Perry K Steam Plant in environmental compliance," explained Bill Tracy, Senior Vice President, Operations for Citizens.

While the upcoming rate adjustments are unavoidable, Citizens Thermal remains strongly committed to doing all it can to hold down operating costs and make wise fuel purchasing decisions. Even after the rate adjustments, steam service from Citizens Thermal remains highly competitive with other forms of energy available to you. Using Citizens Thermal also allows customers to focus on their particular business and avoid making costly capital investments in energy equipment and staffing.

Customers with questions about the rate increase are encouraged to call Bill Petty at 927-4742.

Employee Spotlight - Dave Biggers

What is your job title?

Distribution Maintenance Foreman.

What is your favorite part of the job?

Being outside. I have worked inside for so many years it feels good to be out and moving to different job sites.

What did you do before coming to Thermal?

I was the supervisor over fleet repairs at the Gas Operations Division.

What are your hobbies outside of work?

I love to play golf, even if it is bad golf. I like to spend time outside working in the yard. My wife and I have two gardens, one for vegetables and one for flowers. She's the boss out there.



Dave Biggers, Distribution Maintenance Foreman

Steam and Chilled Water Service Telephone Numbers

Dave Toombs,
Thermal General Manager,
317-693-8805 (office)
317-727-1342 (cell)

Jamie Dillard,
General Manager, Facilities
& Engineering
317-927-6431 (office)

Bob Purdue, Plant Manager
(Steam Operations)
317-693-8701 (office)
317-695-0512 (cell)

Bob Asher,
Manager Customer Services
& Distribution
317-693-8704 (office)
317-431-3256 (cell)

Sharon Connell,
Customer Service & Billing
Representative
317-261-8794

Bob Taber, Foreman,
Customer Service & Metering
317-693-8883 (office)
317-695-7924 (cell)

**Toll Free Number - Customer
Service & Billing**
877-313-2467

Kenny Cox,
Manager Operations & Maintenance
317-693-8884 (office)
317-441-7309 (cell)

Todd Fuller, Facilities Manager
(Chilled Water Operations)
317-236-6702 (office)
317-695-2099 (cell)

Jim Walker,
Operations Supervisor
Chilled Water Operations
317-236-6704 (office)
317-695-2099 (cell)

Other telephone numbers: Marketing - Steam and Chilled Water

Bill Tracy,
Senior Vice President Operations
317-927-4534 (office)

Bill Petty,
Manager Market Development
317-927-4742 (office)
317-431-3358 (cell)

**Steam and Chilled Water Service
Emergency Contacts**
*In the event of a steam or chilled
water emergency, Citizens Thermal
Energy can be reached at the
following numbers:*

**Steam Plant Operations
Emergency 24-Hour Number
(Steam Operations Control Room)**
317-261-8804

Shift Supervisor's Office
317-261-8819

Ron Pinkins,
Operations Supervisor
317-693-8807 (office)
317-431-4414 (cell)

**Chilled Water Plant Operations
Emergency 24-Hour Number
(Chilled Water Control Room)**
317-236-6700