ANNUAL REPORT

CITIZENS ACTION COALITION OF INDIANA

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Letter from the Executive Director

The latest round of local elections may have provided us with an important lesson in the public's state of mind and politics in general.

Voter ire over property taxes sent many incumbents packing. Although the General Assembly caused the spike in residential property taxes by eliminating the inventory tax on business, the local elections came prior to the state elections and voters felt compelled to act. The message obviously hasn't fallen on deaf ears among the leadership of the General Assembly. Hearings are underway now designed to arrive at approaches to alleviate the property tax squeeze on homeowner finances.

The lessons learned from the latest election results are very intriguing.

First and foremost, citizens are the real power behind the throne when they want to be, regardless of the financial resources of candidates. For instance, Bart Peterson, the outgoing mayor of Indianapolis, possessed campaign resources roughly ten times as much as his rival and incoming mayor, Greg Ballard. The local power base (including the individuals and institutions it represents) was unable to sway the outcome. No amount of special interest campaign contributions could have stemmed the tide of anti-incumbent feeling of the electorate, whether from developers, utilities, pharmaceutical companies, unions or mega-law firms. The Indianapolis Star's endorsement of Peterson went for naught, as well. Mayor-elect Ballard did not even enjoy the support of his own party. Clearly, the public decided this election in a decisive manner.

Secondly, the results of the recent election seems to reinforce the perception, often unstated but nonetheless present in the public psyche, that there is really no political leadership at the local, state or federal levels in this country. There is no apparent vision with respect to improving the lives of people in general. There are no proposals that address the issues of the day in any concrete, decisive manner. There is only business as usual, which is at the heart of the recent voter response, and business as usual, in this case, is inimical to democratic values.

The Democrats put out the message "We feel your pain." The Republicans' message was: "We can't imagine how this happened". Both messages were disingenuous at best because they knew the root cause, i.e. shifting a significant portion of property taxes from businesses to homeowners. And both responses reflect an endemic problem in our public policy processes.

Most elected officials act in a manner suggesting that they are completely disconnected from their constituents and, therefore, the needs of their constituents. The status quo is important to them because it is important to the most financially and politically powerful elements of society. They work to appease those interests out of the public eye as much as possible. Take the example of the property tax issue. Officials worked under the guise of "economic development" or "job growth" but were merely satisfying the economic interests of the most powerful and entrenched interests. However, in this instance, their actions struck decisively the wrong cord with their constituents.

Third, with few exceptions, elected officials are in power for the sake of being in power, not to exercise that power to the benefit of their constituents or society in terms of furthering the values of justice, equality, and the pursuit of happiness. They all receive their contributions from the same sources and, as a result, are unwilling or unable to break the cycle of policy making based on shortsighted crony capitalism. That is why the differences between the major political parties are unremarkable and why there is a leadership vacuum that extends from Main Street to the halls of Congress.

In the last local election in Indianapolis, the public filled the leadership vacuum. Citizens took matters into their own hands and, without a person or vision to rally around, they sent a strong message to incumbents for whom no real loyalty exists at this time. The same can be said for the major political parties.

Fourth, it can be argued that the property tax issue has become an important issue for the middle class because the financial status of the middle class is under siege by powerful corporate interests. Risk shifting, profit taking and concentration of wealth are the order of the day. Exceedingly high health care costs, rising utility and energy costs, rising property bills, the trend toward regressive taxation, the assault on wages and benefits are all the result of private business plans masquerading as public policy. These financial pressures are destabilizing the middle class and making "affordability" a key issue for households across the nation.

In conclusion, the basic needs of our population, including the opportunity for a meaningful, productive life, cannot be met under the current circumstances. It is now our challenge to create a strong consumer message and engage citizens in their roles as taxpayer, ratepayer, parent, wage earner, and/or homeowner for support of policies that fulfill these basic needs which compromise the foundation of the true public interest. For, in the final analysis, citizens will have to fill the leadership vacuum to redirect our communities, our state, and our country to a more sustainable and prosperous future.

Grant Smith

Mission Statement

TO INITIATE, FACILITATE AND COORDINATE CITIZEN ACTION DIRECTED TO IMPROVING THE QUALITY OF LIFE OF ALL INHABITANTS OF THE STATE OF INDIANA THROUGH PRINCIPALED ADVOCACY OF PUBLIC POLICIES TO PRESERVE DEMOCRACY, CONSERVE NATURAL RESOURCES, PROTECT THE ENVIRONMENT, AND PROVIDE AFFORDABLE ACCESS TO ESSENTIAL HUMAN SERVICES.

Finances and Fundraising

Financial Outlook

At CAC we are constantly seeking to maximize the generous contributions of our members in order to utilize our resources in the most effective means possible. Unequivocally, we have a fiscal responsibility to our members, and we take it seriously.

Over the last 3 years we have found ways to save well over $200,000 in our overall budget while we maintain effective staffing levels. Most recently, we moved the Indianapolis office downtown from our north side location. As a result, we will save on average $4,000 per year over the term of the lease.

On the revenue generating side we rely primarily on our canvass operation, our endowment and, to certain extend, foundation dollars. To enhance revenue we are going to launch a major gifts program in 2008. In 2007 we strengthened the Indianapolis field canvass and opened a new office in Fort Wayne, which is expected to have a positive impact on our financial outlook for 2008. The increase in membership names due to the success of the Indianapolis and Fort Wayne field operations will, in turn, enhance the effectiveness of the phone canvass staff, who call our members on a periodic basis.

Foundation Grants

CAC's partner the Citizens Action Coalition Education Fund received grants in 2007 from the Nina Mason Pulliam Foundation, the Civil Society Institute, and the Normandie Foundation. These funds support CAC's energy agenda.

Major Gifts Program

CAC and CAC Education Fund staff developed materials to launch a major gifts program in 2008. The program is essential to enhancing financial stability and staff-building for both organizations. Although most large donors will seek a tax deduction under the Education Fund, staff will also explore with interested persons the possibility major donations to CAC, a 501(c)(4) non-tax deductible organization.

Field and Phone Canvass

The priorities heading into 2007 were to strengthen the canvass management to attract a strong canvass core. This was successful. Our door-to-door canvass and phone canvass are stable and growing. The canvass management team, along with continued strong public support, has made 2007 a successful year. The field canvass in Indianapolis is projected to raise $100,000 more in 2007 than in 2006. The field canvass in the newly opened Fort Wayne office is building momentum heading into next year. The phone canvass numbers and staff are expected to grow in 2008 due to an expanding membership base generated by the more effective field canvasses.

CAC Endowment

CAC's current fund manager, acquired in September 2006, has done an excellent job this year in making the CAC Endowment a reliable and significant contributor to the organization's revenue stream. Despite the fluctuating market due primarily to the subprime mortgage debacle, CAC's endowment earned approximately a 12% return this year.

Member and Public Communication

We have vastly improved our e-mail capability this year and are steadily increasing the list of members we e-mail to. We are currently adding approximately 200 members per month to the list and have lost very few member e-mails over the year.

We plan an upgrade of the CAC Web site that should be completed by next February. However, we have received over 58,000 site visits and over 818,000 hits this year on our current site.

CAC is planning to launch a smaller version of the newsletter of the past next year. It will be published more frequently but contain only the highlights of our work. It will include links to more detailed information. We plan to hand those out to members through the canvass and e-mail them to our member e-mail list.

2007 marked the second year of our membership survey. We asked our members to respond to the same set of issues we posed to candidates last year. We received approximately 530 responses from our members. We received perhaps 30 from candidates, most of whom were non-incumbents.

The Membership Survey results were as follows:
Members returned over 500 surveys to our office in 2007. The survey posed questions regarding confined animal feeding operations (CAFOs), energy efficiency programs, a Renewable Electricity Standard (RES) for the state, universal health care, the overall approach our energy policy should take, and global warming. Each question requested a range of answers from 1 being very supportive to 5 being very opposed. Not all respondents answered all of the questions. As a result, percentages below are based on those who answered the question.

The majority of CAC members are moderate to conservative.

CONFINED ANIMAL FEEDING OPERATIONS (CAFOS)

Most CAC members favor a moratorium on CAFO construction and believe that local control is the way to go. A significant majority supports more stringent environmental and public standards for these facilities.

69% of respondents support a moratorium on CAFO construction, with 42% very supportive. Only 6% of respondents were opposed. 57% of respondents support basing the location of CAFOs on their impact on property values. Only 7% were opposed. 49% supported local control over the siting of CAFOs while only 14% opposed the idea. 73% were somewhat to very supportive of more stringent environmental and public health requirements for CAFOS, with 41% very supportive. 60% opposed relaxing such requirements.

ENERGY EFFICIENCY PROGRAMS

CAC members are in favor of energy efficiency programs and would support a small increase (2.3%) in electric and gas rates to fund them. The majority opposes utilities determining how much they spend on energy efficiency programs.

62% of respondents support an increase of 2.3% in their electric and gas rates to fund energy efficiency programs. Only 17% oppose such an idea. 58% oppose utility companies dictating how much they spend on efficiency programs, with only 10% favoring utility control.

RENEWABLE ENERGY TECHNOLOGY

CAC members are very keen in seeing the passage of Renewable Electricity legislation in Indiana and most do not want utilities dictating their level of investment.

55% of respondents opposed allowing utility companies to dictate the level of renewable energy investment they make. Only a small percentage (11%) supported the concept. The vast majority (75%) support passage of Renewable Electricity Standard.

UNIVERSAL HEALTH CARE

It’s clear that CAC members are not happy with the current health care system. The most supported option was extending Medicare to everyone. However, mandates on the individual and medical savings accounts were close seconds.

56% support extending Medicare to everyone. Only 18% oppose. However, there is also support (just over 50%) for requiring individuals to purchase insurance (as long as low-income families are subsidized) and for expansion of availability of medical savings accounts. 61% oppose the current system.

ENERGY POLICY

The majority of respondents favor energy efficiency and renewable energy over coal-fired power plants.

46% of respondents believe we can avoid building coal plants if we emphasize energy efficiency and renewable energy technology. 49% say that we should capture our energy efficiency and renewable energy potential before considering coal-fired power plants. Only 2% believe that we have to build coal-fired power plants to meet demand.

GLOBAL WARMING

The vast majority of CAC members believe that we must act on global warming now.

85% of respondents believe we must act now to address global warming. Only 10% suggested we need more scientific evidence.

Citizen Leadership

In our efforts to engage the public and members more effectively, CAC, in partnership with the CAC Education Fund, embarked on a project to determine what kind of information or tools the public would need to become more involved locally and at the state level with respect to issues of their concern. CAC teamed with Training for Change, an organization that develops curriculum on an issue-by-issue basis. Training for Change conducted surveys and a focus group session as part of their final report. As a result, CAC will be reviewing and developing approaches to help citizens become more effective local leaders based on the findings of the report. Ultimate success will depend on partnering with other organizations and educational institutions in creating the necessary infrastructure to deliver such a program in a systematic and widespread basis.

Energy Education

The CAC Education Fund secured funds from the Nina Mason Pulliam Foundation to conduct public education with respect to household reduction of carbon footprint. The project is called the Central Indiana Environmental Education Program. The Program has partnered with the Marion County library system, neighborhood associations and local utilities to conduct public meetings and seminars with respect to the impacts of the current electric energy system (in Indiana mainly coal-fired power) on global warming, public health, and costs and alternatives such as energy efficiency and renewable energy. The project is geared toward what homeowners can do to make their homes more efficient in electricity usage while saving money and reducing carbon dioxide emissions, which are the primary contributor to global warming. Currently, efforts are underway to expand the program beyond Marion County. For more information go to www.cacefindiana.org.

Other Developments at CAC

CAC moved its main office from 54th and College to downtown. We reside at 603 East Washington St., Suite 502, Indianapolis, IN 46204. We also opened a new office in Fort Wayne, Indiana. The address is 2250 Lake Ave., Suite 110.

The most memorable scene during the Indianapolis move was a 15 foot high pile of boxes next to the old office whose contents had been shredded. Downsizing the Education Fund "library" was long overdue. Prior to that, however, we painstakingly went through 30 years of documents (about 450 boxes) to preserve an archive that we can now utilize.

Issues and Advocacy

Proceedings before the Indiana Utility Regulatory Commission

THE POSITIVE

Since CAC and its coalition partners filed the first attempt at passing a Renewable Electricity Standard for Indiana in 2006, the interest of Indiana electric utilities in wind development has increased dramatically. First Duke Energy agreed to buy 100 megawatts of wind from a wind farm under construction in Benton County, Indiana. Now it's 200 megawatts. Southern Indiana Gas and Electric is buying 30 megawatts in the same county. AEP is looking seriously in the state as well. This is a start. However, we should be able to develop 4,000 megawatts of wind in Indiana, which is why we need a Renewable Electricity Standard.

CAC has also been in negotiations with a number of utilities with respect to implementing or expanding their energy efficiency programs. However, not all are positive as Duke Energy is pushing a self-serving design.

CAC was part of a Stipulation and Settlement Agreement with the following utilities to extend NIPSCO's, Vectren's, and Citizens Gas' low-income assistance and energy efficiency programs to June 2011.

THE NEGATIVE

CAC intervened against a 630 megawatt coal gasification plant proposed by Duke Energy in Edwardsport, Indiana. The evidence clearly shows that the plant is not needed. There are plenty of other energy resources, particularly energy efficiency, that can easily cover electric energy demand increases in Duke territory (formerly PSI Energy) at a lesser cost.

The Indiana Utility Regulatory Commission recently approved the plant. CAC intends to appeal the Commission's decision. We are currently analyzing the Commission's Order to prepare our arguments.

In our estimation, the IURC has clearly violated the public trust with this decision. It is unconscionable from the standpoint that there are cheaper ways to meet demand as Hoosier households are finding it more difficult to make ends meet. Secondly, with respect to the international, scientific consensus that global warming is occurring from carbon dioxide emissions (mainly from coal-fired power plants), the proposed plant will increase carbon dioxide emissions in the state by 3.5 million tons per year. In addition, there is no commercially available technology that can curb carbon dioxide emissions into the atmosphere. According to Duke CEO Jim Rogers, this technology will not be available for 15 years.

In addition, Duke eliminated 660 megawatts from its system for retail customers while it claimed it needed a 630 megawatt power plant. To follow that up Duke announced adding an additional 1000 megawatts to its system through power purchases and other means while announcing an increase in energy efficiency funding. However, the original request to the IURC asked for only an additional 500 megawatts.

Moreover, the cost of constructing coal plants is rising dramatically. A number of them have been cancelled due to cost and the specter of carbon dioxide regulation. CAC petitioned the IURC to reopen the docket for additional evidence due to these cost increases and that fact the Duke's last estimate was made in October 2006. The company's estimate at that time was $2 billion. The commissioners did not respond to the petition.

The Commissioners took none of this into account. The IURC commissioners' approach to global warming is to ignore it. Their approach to the prohibitive cost of constructing new coal plants is to ignore it. Their approach to cheaper and cleaner alternatives is to ignore them. Their approach to anyone's evidence but Duke's is to ignore it.

This is truly a case of Administration ego. The Governor wants it built so the IURC commissioners found a way. Apparently in keeping with the wishes of the governor, the chair of Commission, David Hardy, has publicly stated that his role is to make Indiana a good place for utility investment, not, as the law states, to balance the interests of ratepayers and utility companies. The IURC's decision on Duke's proposed plant is a travesty of justice.

Results of the 2007 Indiana General Assembly

BIENNIAL BUDGET

The Indiana General Assembly adjourned "sine die" on Sunday, April 29, 2007, marking the end of the 2007 legislative session. In the waning hours, the legislature passed a two-year, $26 billion state budget (HB1001), calling for approximately $550 million in property tax subsidies for homeowners and a scaled down, optional plan for districts to provide full-day kindergarten. Threats to the expanded use of the Community and Home Options to Institutional Care (C.H.O.I.C.E.) Program dollars for the Medicaid Aged and Disabled Waiver Program were quelled late in the process, ensuring that the bulk of those dollars remain available to provide home and community-based services to individuals who would otherwise require nursing home care.

RENEWABLE ELECTRICITY STANDARD (RES)

Considerable in-roads were made this session to secure passage of a renewable electricity standard (RES), marked by the introduction of HB 1496 and HB 1122 in the House and SB 348 in the Senate. Over the past year CAC has collaborated with the Indiana Coalition for Renewable Energy and Economic Development (ICREED), of which it is a member, to develop the key components of an Indiana RES and a multifaceted strategy for its passage. CAC spearheaded the lobbying efforts at the statehouse, with technical support and expertise from the Hoosier Environmental Council (HEC) and the Chicago-based Environmental Law and Policy Center (ELPC).

Our RES initiative calls on electric utilities to purchase an increasing amount of electricity from renewable resources such as wind, solar and biomass, beginning with 1% in 2009 and increasing to 10% by 2017. Though unsuccessful in our efforts, we laid important groundwork this year by educating legislators of the need to invest in alternative energy resources to reduce greenhouse gas and toxic air emissions, capitalize on Indiana's rich portfolio of renewable electricity resources to diversify our energy mix, stimulate job creation and economic development in a new energy sector, and distribute electric generation more widely throughout Indiana. We backed up our arguments about the negligible rate impact of an RES with a commissioned study specific to Indiana and supported by 27 other studies across the county, and contrasted the cost-effectiveness of an RES with the inevitable and significant rate increases attributable to a one-track energy policy limited to fossil-fuel-generation and the associated costs of anticipated CO2 regulations.

During the session we successfully fought attempts to pass watered-down versions of an "RES", including efforts by the utility and coal lobbies to include "waste coal" and "clean coal and energy projects" in the definition of "renewable energy resources", and to lower the compliance standard to levels below which any meaningful investment in an Indiana renewable energy sector would be possible. We also found a strong ally in Representative Dave Crooks (D, District 63, Washington), Chair of the House Commerce, Energy and Utilities Committee to which utility regulatory legislation is routinely assigned. At every step of the legislative process, Rep. Crooks strived to equitably balance the interests of investor-owned monopoly utilities with CAC's interest in protecting residential and commercial ratepayers and in developing a renewable electricity market. His leadership ensured our "seat at the table" throughout the negotiation process, and will no doubt help us in future efforts to advance our legislative policy initiatives.

"TRACKING" PROVISIONS

Though the electric monopoly utilities ultimately thwarted our efforts to pass an RES this session, we were successful in defeating no less than five "tracking" provisions that would have allowed them to profiteer at the expense of captive ratepayers. As previously discussed, "trackers" are a shorthand method of increasing utility rates. Over a period of almost three decades now, trackers have become a habit of regulation, and utilities are routinely tracking rate increases to consumers instead of pursuing formal rate cases at the Indiana Utility Regulatory Commission (IURC).

Taken in isolation, trackers seem relatively harmless. The utility asks to add a cost of doing business, whether new or ongoing, to the rate base. The problem, however, is that no consideration is given to offsetting cost increases with cost reductions that would otherwise be passed onto ratepayers in a formal rate case. In collaboration with the Indiana Industrial Energy Consumers (INDIEC), we were successful in educating many more legislators, including those on key utility committees, about the evils of tracking legislation. Our success is reflected in the defeat of all of the utility-sponsored tracking provisions this session, as follows:

1. BIOFUELS ELECTRIC/GAS SERVICE TRACKER: This tracker provision was unjustly attached to our RES language in the introduced version of HB 1496, and would have made a utility's residential, commercial and industrial customers the guarantors of all costs made by public utilities in extending electric or gas service to facilities that produce ethanol or biofuels, regardless of whether the facilities become or remain operational.

This would conflict with current policy, requiring each electric utility to provide necessary facilities for rendering adequate service to a customer without charge, and only allowing a utility to charge such customer if the utility's estimated total revenue for a period of 2.5 years to be realized from the customer is at least equal to the estimated costs of such extension (the so-called "2.5 Rule"). Had this provision been enacted into law, it would have set a precedent for a public utility to guarantee a return on its investment in extending service to a particular customer, even when the utility will also receive revenue from the customer as soon as the service is established, and even though the other customers in its rate base receive no benefit from the transaction.

2. Distribution System Improvement Charges ("DSIC") Tracker: Another provision inserted in the RES bill (HB 1496) would have expanded provisions, allowing public and municipal water utilities to "track" costs associated with distribution system improvement charges ("DSIC"), to include electric, gas and steam-generating utilities that distribute electric power to retail customers or end users by means of low voltage electric lines. It would have further required the IURC to approve DSIC charges for projects up to $50 million. This tracker would unreasonably expand the scope of the statute's original purpose – to assist smaller water utilities in recovering costs associated with distribution system improvements – to include investor-owned monopoly utilities that are required to engage in long-term planning to address projected needs and to maintain service quality, and that are required to recover costs for these reasonably anticipated investments only through formal rate-making procedures that equitably balance cost increases with cost savings for the benefit of ratepayers.

3. Electric Lines Facilities Projects ("ELFP") Tracker: A third "poison pill" included with the RES language in HB 1496 would have provided automatic incentives for electric utilities for investments they are already required to make to maintain quality of service; investments in overhead and underground electric transmission and distribution lines ("electric line facilities"). Instead of penalizing electric utilities for failure to maintain and upgrade the basic, revenue-generating infrastructure for the delivery of electricity to end users, these provisions would require the IURC to reward electric utilities by providing financial incentives allowing them to "track" expenditures for electric line facilities projects to their customers. The provisions would further require the IURC to approve projects that are "consistent with" a plan developed by a regional transmission organization ("RTO" – more like a utility trade association than an impartial regulatory body), regardless of whether such investments are cost effective or consistent with actual need. This would shift the burden of proof from monopoly utilities to ratepayers, who can least afford regulatory challenges to the reasonableness of such investments.

4. Advanced Metering Infrastructure ("AMI") and Conservation and Load Management Tracker: SB 410, as introduced, would have provided financial incentives for an electric utility's investments in AMI and implementation of conservation and load management programs. It would have also required the IURC to create specified financial incentives for investments in AMI and conservation and load management programs. AMI is touted as a way to influence a customer's timing or use of electricity by allowing utilities to charge higher rates during peak usage times and lower rates at other times during the day.

SB 410 would have allowed electric utilities to track investments in conservation and load management programs by encouraging the IURC to provide financial incentives for programs found to be reasonable and necessary not later than 120 days following an electric utility's application for one or more incentives. Coupled with the fact that an IURC investigation is currently underway to determine whether or not it is appropriate to implement time-based rate schedules and the advanced metering and communications technology to support them (IURC Cause No. 43083), these provisions would remove IURC discretion to determine whether to award financial incentives, and would place arbitrary limits on the timeframe in which the IURC could consider the reasonableness of a request.

5. Air Emissions Projects Tracker: SB 206, as introduced, would have expanded the availability of financial incentives and automatic rate adjustment ("tracker") provisions for utility compliance with federal environmental regulation, to investments to comply with "reasonably anticipated" regulations that may be enacted for other pollutants, such as carbon dioxide (CO2), mercury, and particulate matter. CAC has testified in support of planning for and investment in regulated air emissions projects that include CO2. However, the proposed language in SB 206 would have expanded the scope of regulated air emissions projects beyond electric generating facilities using "clean coal technology" to any existing electric generating facility regardless of its fuel source. This could incentivize the burning of municipal waste, garbage imported from outside Indiana, and other materials not originally contemplated in Indiana's Clean Coal Technology statute, to the exclusion of more cost effective investments in energy efficiency and renewable energy resources that do not cause further harm to public health or the environment.

SB 206 would have also expanded the definition of a regulated air emissions project to include "offset programs", such as agricultural and forestry activities that reduce the level of greenhouse gases in the atmosphere. While such programs may have merit, the term "offset programs" was never defined in the bill, contained no standards by which to measure potential offsets for power plant emissions, and was not limited to investments in Indiana. Combined with provisions requiring the IURC to award financial incentives for these expanded air emissions projects, SB 206 removed the only mechanism - meaningful IURC oversight – to protect ratepayers from questionable investments, and would have unjustly rewarded utilities through enhanced profits merely for complying with what is or will soon be legally required.

CAPTIVE RATEPAYER COAL GASIFICATION FINANCING SCHEME

The only anti-ratepayer bill we were unable to stop was HB 1722 – Coal gasification tax credits and cost recovery. HB 1722 changes current law by eliminating the Indiana Utility Regulatory Commission's (IURC) authority to prevent gas utilities from recovering, through rate-adjustment (tracking) mechanisms, their gas purchase costs unless they demonstrate they obtained the gas for the lowest cost reasonably possible. While limited to gas purchase agreements in connection with a proposed coal gasification plant, this change could affect upwards of 25% of all gas purchases in Indiana for the next 30 years.

This statutory change was touted as a key component of a complex plan to secure financing for construction of substitute natural gas ("SNG") and integrated coal gasification powerplant ("IGCP") facilities (the "project"), that would otherwise be too risky to build. The proposed project is described in a petition filed with the Indiana Utility Regulatory Commission (IURC) on 10/27/06, in Cause No. 43154. In the petition, Indiana Gasification, LLC, the developer, and Vectren, NIPSCO and Citizens Gas, the utility petitioners, are asking the IURC to decline jurisdiction over the project and to approve the purchase of SNG under fixed-priced, 30-year contracts – the price and terms of which are unknown.

HB 1722 prohibits the IURC, the state, or any other governmental entity from future disallowance, let alone re-consideration, of substitute natural gas ("SNG") power-purchase agreements and related costs (for transportation and storage services) under the proposed project. HB 1722 further provides for the recovery of the cost of replacement gas and related costs in the event the SNG gas is not delivered pursuant to contract terms.

CAC opposed HB 1722 for the following reasons:

- HB 1722 unfairly shifts the financial risks for a commercially unproven and deregulated gas supplier to Indiana ratepayers.
- HB 1722 forces Indiana ratepayers to become the guarantors of a speculative project with sight-unseen-30-year contracts.
- HB 1722 locks the IURC and Indiana ratepayers into 30-year contracts for gas and electricity supplied by the proposed project even if there are other cheaper resources.
- HB 1722 prevents the IURC from instituting ratepayer protections if there are changes in "market conditions" or "other circumstances."
- HB 1722 forces ratepayers to pay for gas twice if the proposed project fails to operate - during plant outages, ratepayers would have to pay to meet the obligations of the SNG contract while simultaneously paying for replacement gas.
- HB 1722 directly conflicts with and overrides current law which mandates that gas utilities provide service at the cheapest cost to ratepayers.
- The sole purpose of HB 1722 is to change the current IURC regulatory scheme to enrich out-of-state developers and protect the financial interests of investor-owned utility companies at the expense of ratepayers.

Despite our legislative and grass roots advocacy efforts, HB 1722 passed the House and Senate and awaits the Governor's signature into law. Before its final passage it was further amended to include language providing production tax credits for cellulosic ethanol, and "Energy Saving Tax Credits" for residential and small business taxpayers who purchase Energy Star heating or cooling equipment (furnaces, water heaters, central air conditioners, room air conditioners, and programmable thermostats). The latter provision, supported by CAC in testimony on SB 525, where it originally resided, allows taxpayers to take a credit equal to the lesser of 20% of the purchase price or $100, and limits the total credits allowable in a given year to $1 million.

The final version also includes language defining "organic waste biomass" as agricultural crops, agricultural wastes and residues, wood and wood wastes (wood residues, forest thinnings, mill residue wood and waste from clean construction and demolition), animal wastes and aquatic plants. Municipal waste, which we argued should be taken out of an earlier version of the definition, was ultimately removed, but waste from clean construction and demolition, which we also argued against, remains.

However, CAC has intervened in the Indiana Gasification LLC proceeding now before the Indiana Utility Regulatory Commission in an effort to protect consumer interests in this decision-making process. Notwithstanding the passage of HB 1722, there are many questions about final construction costs, coal contracts, the details of the contract (still in negotiation) between the project and Indiana's major gas utilities, and the overall financial viability of the project at this time.

HOME ENERGY ASSISTANCE SALES TAX EXEMPTION

An important victory this session came with the passage of HB 1037, extending the sales tax exemption for the low income home energy assistance program (LIHEAP) until July 1, 2009. The sales tax exemption was first enacted last year, and was to expire 7/1/07. Exempting sales tax on federal LIHEAP dollars coming to Indiana makes approximately $2.45 million in additional funds available to serve low income families in need of assistance in paying energy-related utility bills.

Federal funding for LIHEAP has not kept up with inflation, and skyrocketing costs for natural gas have exacerbated the problem of affordability for people with low and fixed incomes. Beginning last year, due to the Governor's move to expand eligibility for LIHEAP to include families with incomes at or below 150% of the federal poverty level (up from 125%), more families were eligible for energy assistance, which includes money for weatherization programs to help people lower their heating bills.

However, while record numbers sought help, less than a third of all eligible households applied for and received assistance. Moreover, the one-time energy assistance benefit only covers about one month's heating bill, leaving hundreds of thousands of households struggling to maintain this essential service.

The House-passed version of HB 1037 (the bill passed by a vote of 99-0) made the sales tax exemption permanent. The bill was amended in the Senate to "sunset" the sales tax exemption after two years, and on 3/13/07 passed third reading in the Senate by a vote of 48-0. While CAC supports the permanent exemption of sales tax from LIHEAP, a two-year extension is still a victory, and makes it more likely that a permanent exemption will be granted at the end of the two-year extension to avoid having to reduce the number of participating households. House Enrolled Act (HEA) 1037 was signed into law by the Governor on April 23, 2007.

CONCENTRATED ANIMAL FEEDING OPERATIONS (CAFOS) AND CONFINED FEEDING OPERATIONS (CFOS)

At least six bills were introduced this session to address the regulation of CAFOs and CFOs. Bills varied widely in scope, from a complete moratorium on new operations, set-backs from schools and municipalities, the requirement of local health and/or zoning permits before construction is allowed, the establishment of "good character" requirements, increased fees for permits and violations, limits on distribution and storage of waste, tax credits for anaerobic digesters, to prohibiting local ordinances from exceeding state requirements for CFO statutes and rules.

SB 431 remained the sole vehicle for consideration at session's end, and included disclosure statement requirements for permit applicants, new certification, training and education requirements for manure and fertilizer applicators, increased fees for CAFO/CFO operators to support an enhanced Indiana Department of Environmental Management (IDEM) inspection and compliance program, implementation of a voluntary certified livestock producer program, a commitment to provide model ordinances and other land use planning and zoning tools to local governments, and removal of controversial provisions that interfered with current local authority over land use planning, zoning and health.

Notwithstanding, SB 431 "died" when agreement could not be reached on retention of set-back provisions in the bill. A simple Senate Resolution (SR 72) is all that ended up passing in the final hours of the session. The resolution urges the legislative council to seek a report from IDEM regarding the types and numbers of annual inspections for CAFOS and CFOs, the number of applications, approvals, denials and permits, the types and sizes of operations for which approvals are issued, the types and numbers of violations of statutes and rules concerning human health and the environment, the types and numbers of enforcement actions initiated or concluded, and the types, numbers and amounts of criminal and civil penalties and fines.

Testimony Before the Regulatory Flexibility Committee

The Regulatory Flexibility Committee is a standing legislative summer study committee and consists of the members of the Indiana House and Senate utilities committees. This year CAC presented testimony in two sessions of the committee. The firsts was on global warming and alternative energy sources, such as efficiency and renewable energy. The second was on tracking. (See above) It was at the hearing on tracking or rate adjustment mechanisms that the chair of the Indiana Utility Regulatory Commission testified that additional legislation on tracking was unnecessary because the Commission already had the authority to deal with it.

Research and Information Gathering

This year our research and information gathering efforts focused on the coal gasification plant proposed by Duke Energy at Edwardsport, Indiana in Knox County, and with respect to rate adjustment mechanisms or trackers, otherwise known as backdoor deregulation of electric utility companies.

Information on both can be found at our Web site, www.citact.org. Trackers and the proposed plant are also reviewed above.

We also received valuable input from our members in our 2007 survey. (See above)

Grassroots Organizing

The Citizens Action Coalition Education Fund's Indiana Campaign for Economic Justice continued to expand its rural, grassroots network during this time period primarily due to the Indiana governor's policy to significantly expand the number of confined animal feeding operations (CAFOs) in the state. The Campaign worked in 13 counties and consulted with concerned citizens and farmers in numerous others. In this context, the Campaign assists local residents in working against the siting of a particular CAFO, ensuring that health and property protective guidelines are incorporated into permits or consulting on local ordinances.

Emerging Issues

As mayors across the state adopt resolutions to reduce the city's or town's carbon footprint, initiatives have sprung up to look at how best to reduce carbon dioxide in localized areas. Energy efficiency is obviously the most cost-effective approach to accomplish carbon reductions quickly and comprehensively now and into the future. CAC has been researching municipal reactions to global warming around the country and will seek to develop ways to engage the public and municipal governments in effectively attacking the issue of global warming.

Ft. Wayne provides a great opportunity in that the outgoing mayor jumpstarted a number of initiatives on energy efficiency and the incoming mayor appears for now to be inclined to continue. CAC has generated interest among businesses and organizations in Ft. Wayne to expand these efforts.

The public spoke loudly and clearly on Election Day in Indianapolis as most, if not all, incumbents were voted out of office. The issue that spurred the ire of voters, and for good reason, was the property tax issue. The response indicates that the public, when roused to action, can defeat any amount of campaign contributions to candidates. It also indicates that neither political party is particularly noteworthy in the minds of the public. CAC will continue to discuss this phenomenon with staff and Board. Energy/utility and health insurance issues weigh heavily on the minds of CAC members. There is also a growing recognition that global warming can have an enormously catastrophic impact on quality of life and livelihoods.

CAC received funds for work on the Governor's efforts to privatize Medicaid, food stamps, and aid to families with dependent children. CAC is monitoring the situation and collecting information for a report to be published in 2008.

CAC is working with Physicians for a Common Sense Health Plan in developing a report on the best way to deliver universal health care that is affordable and accessible to all. The report will be published in 2008.

This year CAC developed an outline of its research needs, primarily energy related, and contacted various universities in an effort to gauge the interest of professors and students in meeting these needs. We have had positive responses and will be following up early next year.

Legislative Priorities for 2008

We will continue to support the passage of Renewable Electricity Standard legislation in Indiana. Unlike last year, we have a committed sponsor who will also help us derail anti-consumer legislation. Energy efficiency is expected to be part of the RES. CAC supports 20% of our energy mix to be renewables by 2020.

We anticipate the Indiana Energy Association (the lobbying organization for the major gas and electric monopolies, namely AEP (Indiana/Michigan), Vectren (Indiana Gas/Southern Indiana Gas and Electric), Indianapolis Power and Light, and NIPSCO gas and electric) to push for legislation that would allow electric utilities to track distribution and transmission costs and costs for advanced meters.

Priorities at the IURC for 2008

We know we'll be facing a rate case recently filed by American Electric Power (Indiana/Michigan). CAC is planning to intervene in the proceeding assuming that funding is available.

CAC will soon appeal the decision by the IURC to approve the gasification plant proposed by Duke Energy. The appeal process will take us into next year.

Finally, Duke Energy is also proposing a self-serving energy efficiency program whereby they charge customers twice what the program costs and earn an inflated rate of return on their efficiency investments so that ratepayers see little to no savings and Duke makes excessive profits. This is typical Duke strategy. Duke Energy is proposing a similar program in its home state of North Carolina. CAC will definitely be involved in this proceeding.