

ANNUAL REPORT

THE CITIZENS ACTION COALITION OF INDIANA

DECEMBER 3, 2005

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Letter from the Executive Director

The most critical issue for a growing number of Hoosier and American consumers today is being able to afford basic necessities. Exorbitant home heating bills and health care costs, coupled with depressed wages, are making it increasingly difficult for consumers to stay within household budgets. The erosion of our sense of community and commitment to economic justice has endangered what was taken for granted less than a generation ago.

Our international trade policy is designed to suppress wages. Our domestic economic policy is designed to eliminate worker rights and benefits tied to basic human services, such as health care. The lack of commitment to social security and pensions may force millions of baby-boomer retirees into poverty or back into the workforce. If these trends continue, it is inevitable that middle class wage earners will become subsistence wage earners. It is foreseeable that health care will be affordable only to upper income households and that utility customers will have to present a pre-paid credit card in order to receive and maintain utility service.

How could this happen? How can the richest nation in the world abandon its commitment to providing its citizenry with basic needs? What happened to the chicken-in-every pot attitude that lifted millions of Americans into middle class status and cleared the way for a comfortable retirement?

I have reached the same conclusion as many others: The fundamental problem is that public policy has become private policy. Our economy and public policy are driven by short term profit motives of Wall Street. Instead of a socially responsible society looking to secure a better future for the generation to come, we have become a bottom-line society interested only in preserving the stock price of politically powerful corporations. As demonstrated so blatantly by the Bush Administration, Congress, state legislatures and regulatory bodies across the country, this is the era of crony capitalism. The "Gilded Age" has re-emerged. Short term thinking, so inimical to our economic and environmental survival, pervades the entire realm of public policy.

Now is the time to refocus our attention to making economic and social justice the foundation of our public policies. "Wedge issues", such as intelligent design and gay marriage, must take a back seat to affordable utility bills, affordable health care, secure retirement, and living wages. We must unite in our common interest to live comfortably yet responsibly. There is enough to go around if we make the right choices. But, the necessary changes will not occur until the public reasserts itself in the public policy process.

This reality is why we have dedicated our 2005 annual meeting to a discussion of building citizen leaders in Indiana. The idea is to turn the daily struggle to make ends meet, with seemingly no light at the end of the tunnel, into the successful fight for common sense and justice in the public policy process. The wisdom behind "Let the people lead and the leaders will follow" has never been more relevant than at this point in our history.

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 PRINCIPLED ADVOCACY OF PUBLIC POLICIES TO PRESERVE DEMOCRACY, CONSERVE NATURAL RESOURCES, PROTECT THE ENVIRONMENT, AND PROVIDE AFFORDABLE ACCESS TO ESSENTIAL HUMAN SERVICES.

An Organization in Transition: Strategic Planning

In the summer of 2004, after 20 years with the same executive director, a new director was selected by the CAC Board. The Board and new executive director saw the need to begin a strategic planning process to review current operations and the future of the organization. Excelleration Inc., an Indianapolis-based leadership development/strategic planning consulting firm, graciously agreed to guide CAC staff and board through the strategic planning process at no cost. The firm facilitated discussion for a group of staff, board members, and interested citizens who created a strategic directions document for the organization.

The document addressed six key areas of concern:

- Research and white papers to enhance public understanding of issues CAC prioritizes;
- Meaningful dialogue with membership and the general public on issues of concern;
- Activating membership and the general public on CAC issues and local issues of concern;
- Empowering citizens to take action on state and local issues;
- Coalition-building
- Providing the public opportunities to invest in CAC (donating, volunteering, providing services or expertise)

Although there is much work to be done and constant reassessment necessary, the staff has been busy implementing the strategic plan while diligently advocating on energy and farm issues.

Implementation of Strategic Directions Document

The key priority areas for 2005 have been enhancing communication with CAC members and the public and diversifying the funding base.

WEB SITE (www.citact.org)

CAC recently launched a new Web site with an improved format and updated information. The Web address is www.citact.org. We are now researching services to allow for contributions over the Web and to provide us with blast e-mail capability so that we can maintain more consistent communication with members.

FUND RAISING

Historically, CAC has relied very heavily on the field and phone canvass to raise funds for the organization. We have received foundation dollars but have not explored other opportunities.

The field canvass has been in place since 1979. These are the folks that go door-to-door. In fact, every employee at CAC, including the executive director, started as a canvasser. The phone

canvass calls CAC members. There is no cold calling. Fund raising is not the sole purpose of the canvass. Canvassers update members and ask them to contact public officials on various issues. Due primarily to the canvass, CAC has about 200,000 members statewide.

In development, we have worked to complement our canvass operations with other initiatives. We have broadened our communication with foundations and have submitted several proposals to new funders. Several supporters have organized house parties that combine useful information on home energy efficiency measures with good food, fellowship and fundraising.

We are also experimenting with direct mail, mailing to members who request no phone contact and to others who have been difficult to reach. We are also just beginning to develop a large donor program.

These approaches have had varying degrees of success. However, we believe that it is essential to continue to find ways to diversify CAC's funding mix.

MEMBER SURVEY

To further increase member input, staff has developed a survey that will be circulated to members by mail, beginning in 2006. The idea is to better understand our members and receive input on their issue priorities and types of information they find useful. We also hope to identify those members who would like to become more active with the survey.

Issues and Advocacy

Affordability: The Driving Concern Directing Our Energy and Utility Efforts

Wages are dropping, pensions are being dismantled, the number of people without health insurance is increasing and home heating bills are squeezing household budgets. We seem, slowly but surely, to be creating a society in which a large segment of the population cannot afford life's basic necessities.

On the energy/utility front, readily available solutions are being ignored, marginalized or dismissed by Indiana policy makers and regulators. One of the keys to economic success for the state and financial stability for consumers is energy efficiency. Off-the-shelf, inexpensive technology can allow us to do more with less. We have the ability to be more comfortable in our homes and pay less for heat and air conditioning, light our homes more cheaply, and operate our businesses less expensively. At the same time, we can create good paying jobs and improve our dismal air quality by systematically eliminating our reliance on the smaller, obsolete, 1950s-vintage, highly polluting coal-fired power plants we still use in Indiana. In other words, if energy efficiency does not become the foundation of Indiana energy policy, we are condemning a large segment of the population to unaffordable utility bills, missed job opportunities, and continued, pervasive lung disease. (For additional information go to www.citact.org)

Advocacy Efforts

Key Legislation in 2005 Legislative Session

TELECOMMUNICATIONS

CAC successfully killed legislation proposed by SBC in the 2005 legislative session that would have deregulated local phone service, i.e. allow SBC to set its own rates. The excuse for the bill was that it would provide an incentive for SBC to deploy broadband (DSL) technology in Indiana and preserve jobs and expand job opportunities. However, the legislation contained no mandates for broadband deployment nor did it guarantee jobs at SBC. Its sole purpose was to eliminate the last bastion of regulation over the phone company giant: basic local phone service.

Contrary to SBC's complaint about regulation inhibiting broadband investment, it was regulation that pushed SBC into making those investments. CAC and the Office of Utility Consumer Counselor negotiated extensive broadband deployment with SBC in a 2003 settlement that was approved by the Indiana Utility Regulatory Commission. Regulation has also been no hindrance to SBC expanding its empire, either. The Texas-based company owns a large chunk of Cingular, ATT&T Wireless, Ameritech and ATT&T outright.

The "competition" argument was equally absurd. As the recent acquisitions of both SBC and Verizon have demonstrated, we are experiencing consolidation in the telecommunications market, not competition. As further evidence, incumbent telephone companies like SBC and Verizon control almost 90% of the local lines.

What surprised CAC and our allies was the mild opposition in the House of Representatives against the legislation. One explanation is the amount of campaign contributions contributed by SBC and Verizon. In total the companies gave over \$125,000 to House and Senate members from 2003 to 2004, both Republicans and Democrats. However, it was the Senate Republican caucus and the statesmanship of Senator David Ford (R-Hartford City) that finally stopped the bill.

This is the second time within a few years that the Senate Republicans blocked anti-consumer utility legislation by SBC. However, it is clear that Senate Republican leadership is growing nervous about its continued opposition to SBC and that SBC will continue to pressure Senate Republicans and contribute lots of campaign cash into passing legislation to deregulate basic local phone service. In 2006, we expect Brandt Hershman (R-Monticello) to file the pro-SBC bill in the Senate and Mike Murphy (R-Indianapolis) to continue to be the SBC advocate in the House.

There may come a time when we can maintain universal voice communication through DSL technology and have the appropriate 911 services through those technologies. However, there are still bugs in the system with respect to 911 and bundled cable-based services are much more expensive than plain old telephone service.

ENERGY

CAC was less successful on the energy policy front. Although an electric and gas deregulation bill was filed and did not receive a hearing (go to www.citact.org and click on deregulation under the Energy topic), the electric utility industry got language approved to receive income tax breaks for building coal gasification plants. And, CAC's legislative priority, the Sustainable Energy Institute, did not move forward.

The CAC legislation is designed to reduce consumer electricity and heating bills by implementing a statewide energy efficiency program. (Go to www.citact.org for more information) Eighteen states now have statewide programs paid for by ratepayers. The benefit is that for every dollar spent on efficiency measures in the home or businesses, two dollars are saved. To fund the program electric and heating bills would increase by about 2%. This small but broad investment would save consumers billions of dollars over the next 10 to 15 years. The program would also vastly improve air quality in the state by reducing reliance on coal-fired power plants. The legislation continues to be blocked because of the influence of the Indiana Energy Association (the lobby arm for the major gas and electric utilities) over the legislative process with respect to energy policy. Collectively, major gas and electric utilities gave \$206,304 from 2003 to 2004 to legislators. In 2006, Matt Pierce (D-Bloomington) will file the sustainable energy bill.

An investment in energy efficiency also means we would be able to avoid the construction of approximately fifteen 500 megawatt power plants on the electric side, which would save ratepayers billions. Because of the clear and tested benefits of energy efficiency, CAC does not support the construction of coal gasification plants - which cost approximately \$1 billion to build. Not only is coal gasification a commercially unproven technology, the electric utilities are ignoring the issue of global warming. And attempting to capture carbon dioxide waste and sequester it (shoot it into the ground) will substantially add to the cost and operation of coal-fired power plants and significantly reduce their efficiency. Finally, the only way utilities can build the plants is to have taxpayer funded loan guarantees at the federal level and force ratepayers to pay up front to build the plants. The utility exposes itself to little financial risk while shifting almost all financial risk to taxpayers and ratepayers.

Utility Company Issues

CINERGY - Cinergy has taken a sharp turn to the dark side. When Cinergy was created (out of a merger between Cincinnati Gas and Electric and Public Service Indiana) CEO Jim Rogers promised to serve customers well, implemented a comprehensive energy efficiency program designed to save customers \$300 million over 20 years, and was a reasonable negotiating partner.

The situation has deteriorated. PSI energy efficiency funding dropped from \$40 million to \$2 million annually. After promising not to, Cinergy put its unregulated subsidiary's, nonregulated power plant into the PSI rate base to cover losses from the financially failed plant. After promising not to, Cinergy used PSI customers by having its PSI subsidiary sell power to CG&E at cost and then having CG&E sell the power at market rates to other utility companies while

pocketing the profit. Instead, that profit should have been given to PSI ratepayers as credits on their bills. Cinergy also has filed an air pollution compliance plan that will cost ratepayers \$1.2 billion, the highest-cost approach possible to comply with federal air standards. The company even wants to retrofit obsolete power plants that its own consultant said would be idle in 4 or 5 years. Moreover, Cinergy is ignoring energy efficiency (which is a much cheaper option) and renewable energy (which can be a cheaper option). Finally, Cinergy is uncompromising in its position on the Duke/Cinergy merger bid. Duke, a Charlotte, North Carolina-based utility, wants to buy Cinergy. However, it wants to take almost all of the savings and will not make service quality commitments to PSI customers. It's clear that Duke CEO Paul Anderson and Cinergy CEO Jim Rogers view PSI customers as deep pockets and are unconcerned with service quality in Indiana.

CAC intervened in the environmental compliance case and the merger case to protect consumer interests. We'll see how the newly reconstituted Indiana Utility Regulatory Commission will treat ratepayers in these cases. (The new chair, David Hardy, and new commissioner, Greg Server, are former utility execs.)

NIPSCO - NIPSCO is the most hated utility in the state for good reason. The company has been grossly mismanaged and NIPSCO executives expect ratepayers to pay for their management mistakes.

Although NIPSCO has finally put some money into energy efficiency (about one dollar per customer on the gas side but nothing on the electric side) it has done next to nothing to help ratepayers reduce their costs. Instead, NIPSCO has used its influence at the Governor's office (particularly prevalent during the O'Bannon and Kernan Administrations) to arrange for ratepayer-bailouts of its poor management practices.

In 2000, CAC filed a reverse rate case against NIPSCO Electric. By the time all the evidence was in, it was clear that the company was overearning between \$120 to \$140 million per year. State regulatory staff agreed with CAC that a rate reduction of 12 to 14 % was justified. Within a period of two weeks, a period in which NIPSCO met with the O'Bannon Administration, the utility consumer counselor changed her position 180 degrees. A resulting settlement provided ratepayers with a less than adequate credit on their bill and no rate reduction.

In response, CAC has been investigating the rate case and other scandalous activities NiSource (parent company of NIPSCO) operatives have been involved in in northwest Indiana. One white paper is published and the other will soon be published. The former concerns the Lake Erie Land scandal (Lake Erie Land is a subsidiary of NiSource) and the other involves the NIPSCO rate case.

Another bailout in the making is the purchase power agreement NIPSCO has with its own subsidiary. Whiting Clean Energy is a power plant that provides steam to the BP/Amoco refinery and sells electric power to utilities wholesale at market rates. NIPSCO shut down its ancient Mitchell Power plant in Gary. But instead of implementing comprehensive energy efficiency

programs and looking into renewables to cover any demand shortfall, NiSource arranged a deal with the consumer counselor's office that would allow NIPSCO to buy power from NiSource's Whiting Clean Energy power plant. This is self-dealing and the deal is designed to bailout Whiting which lost \$4 million last year. The Office of Utility Consumer Counselor forced NIPSCO to pay for an outside consultant to analyze the deal and the consultant indicated that there were cheaper options. However, the OUCC allowed NIPSCO to temporarily buy power from Whiting. Although CAC did not intervene in this case due to resource constraints, we are working with LaPorte County, which has intervened against the deal, primarily through the Press and the South Bend canvass.

CITIZENS GAS - Citizens Gas, a charitable trust, is drifting from its original mission. The company was formed as a public charitable trust to protect the interests of ratepayers and provide the lowest cost service possible. Currently, the company is asking for a 35% rate increase. In response, the consumer counselor's office has recommended a much lower amount that would increase rates \$4.2 million instead of the requested \$39.2 million. Also, Citizens Gas executives also want to base their bonuses on ratepayer reaction to feel-good TV advertising, not on better quality of service and lower costs. In addition, the company is avoiding the least cost service mandated by law by talking about energy efficiency but not proposing any reasonable program for ratepayers. CAC has intervened in the case.

VECTREN - CAC, the Office of Utility Consumer Counselor, and a group of industrial customers are negotiating a long term energy efficiency program with Vectren. Vectren has also proposed a new rate design which would allow them to adjust rates to recover enough revenue to maintain their authorized net income. We are being very cautious about the proposed rate design's impact on ratepayers and will insist that any such change be accompanied by a substantial energy efficiency program to keep ratepayer bills affordable. In addition, CAC is moving toward a favorable settlement with the company regarding Southern Indiana Gas and Electric's environmental compliance plan.

IPL - Court documents from a suit filed by a former employee revealed that IPL is overearning. The OUCC has negotiated a \$25.00 credit for January 2006 from the company. CAC is currently negotiating a change in the company's small energy efficiency program and hopes to begin negotiations on a much more substantial program by spring of next year.

LOW-INCOME PROGRAMS - In 2004 CAC, the OUCC, and industrial customers negotiated a universal service program for Citizens Gas and Vectren customers. Utilizing various sources of funding, including a small public benefits charge, the program created a low-income rate for low-income households based on a sliding scale. In addition, the programs provided more energy efficiency dollars for low-income households. The results have been positive in terms of keeping low-income customers connected and reducing past due balances.

Recognizing their customers needed help paying their utility bills, NIPSCO initially implemented a program to help customers pay for deposits. NIPSCO charges as much as \$1000 for deposits, in addition to the past due balances people must pay to get reconnected or maintain

connection. The company negotiated with the OUCC a flat charge on customers' bills to pay for it. CAC contends that the money is better spent on energy efficiency and assistance. Moreover, utility deposit policy must change. (See Utility Rule Makings below) As indicated, NIPSCO did initiate a small low-income energy efficiency program this year.

Utility Regulatory Commission Rule Makings

INTERCONNECTION - The IURC adopted an interconnection rule that CAC has been working on for some time. The standard should promote much more distributed power in Indiana. Distributed power is located at businesses or homes (like solar panels). This is much different than the centralized, large power plants we have historically relied upon.

The idea is to have uniform state standards so that customers can interconnect solar panels, wind turbines, and smaller power plants located at industrial facilities to the utility grid. For instance, the major utility companies allow for net metering of wind and solar systems up to 10 kilowatts for residential customers. (Net metering is a kilowatt hour swap between the customer and utility company. Any power you produce reduces the amount of power you need from the power company, i.e. you can slow your electric meter down, stop it from turning, or, in the case of producing more power than you need and shipping power out on the local power line, run your meter backwards.) The interconnection standard governs how these systems are connected through the circuit breaker box to local power lines. For systems that small, elaborate engineering studies or additional equipment is not necessary. Indeed, wind farms or other power generators up to 2 megawatts would normally have no impact on the transmission system. However, there may need to be upgrades to the local distribution network.

In general, the rule seems to be in good shape. The drawbacks is that it is on the conservative side in terms of the amount of distributed power that will be allowed and prohibits net metering in downtown areas.

DEPOSIT RULE - Indiana utility companies can charge exorbitant utility deposits under current law. CAC is working closely with low-income advocates in South Bend and Ft. Wayne on this issue. Our phone and field canvass also generated calls to the IURC on the issue. CAC and others support a deposit rule that charges low-income customers the average of one month's bill and two month's bill for customers above the poverty level. Current regulations allow utilities to charge up to 4 times the average bill.

However, the IURC adopted a very bad rule. It allows utility companies to charge up to four times the average annual bill in deposit fees if a customer has had past due balances during the year or has been disconnected. This is surprising since a recently published, utility and advocate-sponsored study suggested that low-income ratepayers are in arrears all year around. The situation may be worse, though. For instance, Citizens Gas reported that over 50% of its customers had past due balances in May, coming out of the winter months. CAC and its allies will seek a legislative remedy to this most unwarranted and mean-spirited action in the midst of the worst home heating crisis in decades.

Grassroots Organizing

ENERGY: DEPOSIT RULE, THE TONDU COAL GASIFICATION PLANT

DEPOSIT RULE - CAC worked closely with South Bend activists in preparation for a hearing on the deposit rule in South Bend last spring. The activists planned well and turned out 800 people for the hearing. This should have given the IURC a clear indication of the frustration and hardship people are facing with exorbitant utility bills. However, the IURC, under the previous chairman, submitted a draft rule that changed nothing. The IURC is now back to the drawing board and we are expecting a new rule in the next few weeks. Chairman Hardy's attitude and background will provide the public a strong indication of his biases when the final rule is published.

THE TONDU COAL GASIFICATION PLANT - Joe Tondou, a power plant developer from Texas, thought he had his power plant project greased. He spent many hours lobbying the St. Joe County Council for zoning approval of a coal gasification plant in New Carlisle, Indiana, about 20 miles west of South Bend. However, citizens in New Carlisle quickly formed Michiana Quality of Life and organized a potent effort that ultimately defeated the plant. CAC supported the group in terms of strategy and information on coal gasification technology. We also talked to the media about our concerns. This was a very well organized effort of which we were proud to be a part.

FARM PROGRAM

CONFINED ANIMAL FEED OPERATIONS - The CAC family farm program, the Campaign for Economic Justice, is helping citizens organize in 12 counties to stop the siting of Confined Animal Feeding Operations (CAFOs). These facilities house thousands of hogs, chickens, or cows. They tend to force smaller farmers out of business, reduce neighboring property values, and present a significant environmental and public health hazard from emissions from large manure cesspools and run-off into streams of manure sprayed onto neighboring fields.

Emerging Issues

HOME HEATING CRISIS - The heating crisis is now impacting middle income families. It is no longer an issue for the those considered to be in poverty. (See white paper on CAC Web site)

We are working with low-income advocates to bring this issue to light and to come up with energy policy alternatives to address the affordability of home heating costs. As we constantly say, energy efficiency is our best weapon against skyrocketing heating costs.

UNIVERSAL HEALTH CARE - Nationwide about 48 million citizens have no health insurance. In Indiana health care costs are responsible for 50% of personal bankruptcies. Small businesses are finding it increasingly difficult to afford health care for employees. Traditional rust belt industries, primarily auto and steel, are foisting their health care responsibilities for retirees onto the federal government. CAC is now conducting research on the health care situation and will publish a white paper in 2006 on alternatives to our current inadequate healthcare system.

CITIZEN LEADERSHIP - CAC has been working to design curriculum for training citizens to be advocates in their communities and on the state level. We see a real need for more citizen involvement in the political process as special interests exert more control over policy maker decision making. Our 2005 annual meeting will be dedicated to a discussion on this issue.

Research Efforts

Our white papers can be read on our Web site at **www.citact.org**. Major findings are included in appendices. We have published or are publishing white papers in the following areas:

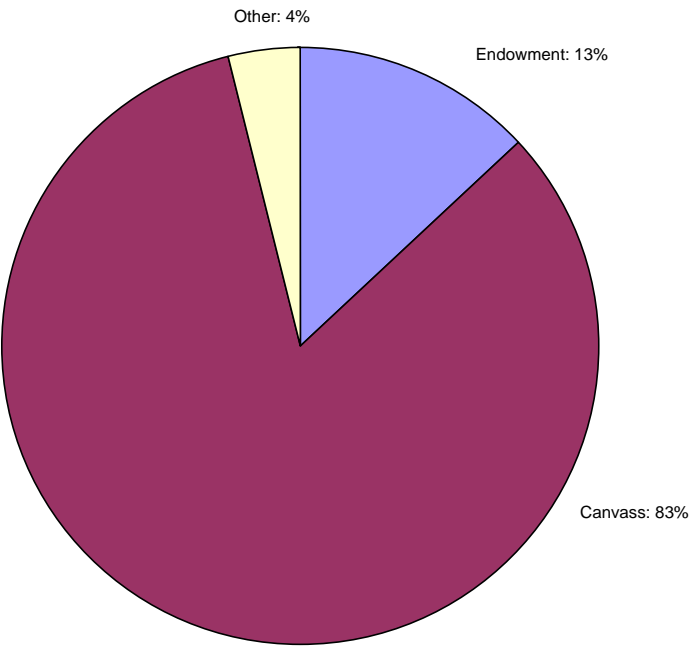
- The home heating crisis
- The Coffee Creek Real Estate Scandal

We are conducting research in the following areas:

- Universal Health Care
- NIPSCO Rate Case

Funding and Expenditures

2004 CAC Income



2004 CAC Expenses

