

ANNUAL REPORT

THE CITIZENS ACTION COALITION OF INDIANA
(WWW.CITACT.ORG)

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Letter from the Executive Director

Significant change is on the horizon for the nation and Indiana with respect to energy and utility issues. As is usually the case, we have options that can either improve our lives or make our lives more difficult. The status quo is not an option for the immediate future or long term. However, it is adherence to business-as-usual that is the biggest threat to our economic well-being and quality of life. The challenge looming before us is to convince policy makers to deal with reality. What is going for CAC and Indiana is that people appear to be ready for change and looking for a positive vision that can address the financial quandary in which a growing number of middle class households are now finding themselves.

The economic realities of high foreclosure and bankruptcy rates, heating bills and dwindling incomes and benefits are now hitting home to many Americans. Upset with the direction of the country, the nation responded by replacing Republicans with Democrats as the party in power in Congress. In Indiana, the House Representatives changed hands. Similarly, the CAC membership survey conducted from January through May of this year revealed a high degree of concern for heating bills and health care costs. It also revealed support for alternatives such as putting greater emphasis on energy efficiency in our energy policy. The financial squeeze, previously associated primarily with households of more modest means, is now beginning to pervade the middle class.

Throwback policies are not going to work to improve the financial position of our citizens in any context but particularly not on the energy and utility front. They cannot, economically or practically, effectively address the very real issues of affordability, public health, and global warming.

As an example, it is clear that Indiana-based, electric utility companies and the Daniels Administration are not coping with reality. Duke Energy has proposed a new coal-fired power plant whose cost estimates have risen 100% over the last year, from an original estimate of one billion dollars to, recently, two billion dollars. The plant will also add substantially to Indiana's overall carbon dioxide emissions which analysts believe will be regulated within a few years. Moreover, particulate (soot) emissions will increase, which are costing Hoosiers billions of dollars per year in health care costs. This represents a potentially enormous rate increase to Duke (PSI) residential and business customers. Indeed, the specter of carbon regulations in a state that relies almost exclusively on coal-fired power equates to a substantial financial risk to ratepayers. However, the build-and-burn mentality of the 1950s through 1970s is cemented in institutionally biased utility companies and in an Administration that seems to view coal as the principal means of addressing electric energy demand.

Utilities and a good number of Indiana policy makers have already wasted enough time pretending that coal-fired power is a cheap way to generate electricity and that global warming and regulating carbon emissions is somehow in the realm of science fiction. If we are going to deal up front with the issues of affordability, global warming, and public

health, we need a new direction that can effectively address these issues. In other words, we have to deal with economic and environmental realities.

The positive aspect of all this is that we are facing a “grim” reality only to the extent we continue down the same energy path of build-and-burn. We have the technological know-how to address the challenges of global warming, affordability and public health in a cost-effective manner.

As has been in the past, it is CAC’s challenge to bring a clear vision of how we can address those issues in the absence of a clear vision in the public interest emanating from policy makers or self-serving utility companies. It is also our challenge to take the angry public mood that swept the Democrats into power and channel that attitude to positive ends. The public’s apparent support of the Democrats appeared mainly to be due to being upset with the Republicans. However, an angry public with vision is how real social change can occur.

Our task of changing public awareness, which can seem, at times, insurmountable, is being aided by reality filtering through to the public in the mainstream media. The promise of renewable power, the science of global warming, the national urge to become energy independent in the wake of the debacle in Iraq; all these developments facilitate our quest to create a better life for Hoosiers with public policies that shift ratepayer and taxpayer investment to energy efficient and renewable energy technologies.

The tasks in the coming year, as generally the case, will be difficult but are all connected. We are facing four prominent issues with respect to our vision for Indiana.

The first is the coal gasification plant proposed by Duke Energy. The second is the Renewable Electricity Standard we are proposing in coalition with the Indiana Coalition for Renewable Energy and Economic Development. The third is the recent initiative launched by the Indiana Utility Regulatory Commission to investigate the merits of a third party administrator (i.e. our proposed Sustainable Energy Institute) with respect to delivering energy efficiency programs statewide. Lastly, Senator Richard Lugar has asked the members of our renewable energy coalition (ICREED) to provide him with input with respect to public policies that can promote energy efficiency, renewable energy and distributed power in Indiana.

The outcome of the first will determine how the Daniels Administration will treat energy policy going forward. The second will allow us to test the waters with respect to public openness for change. The third could put our vision of energy policy, at least in part, on the map in Indiana. The fourth is a great opportunity to attract public attention to our agenda and leverage legislative support for it, particularly among Republicans.

At the 2006 annual meeting, we will explore strategies that can help us realize our vision of economic and social justice for all Hoosiers in the form of energy policy in the public interest.

We know that there will be resistance to our logical and necessary approach from various quarters. However, the time for positive change is upon us. The public is ready. It is up to us to seize the moment.

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

Priorities of 2006

The priorities for 2006 were born out of the strategic plan, discussion of which began in the Spring of 2004, and adoption of amended by-laws in 2005. The three main priorities that emerged from that discussion revolved around fundraising efforts, enhanced membership communication, and improving citizens' ability to participate in issue decision-making at the local and state level.

Fundraising

We have substantially improved our ability to respond to opportunities provided by foundations. Numerous proposals have been issued to various foundations. We have received support from one foundation and indications are we may receive a commitment from another by the end of the year. Both initiatives are pointed toward enhancing our energy agenda. The former focuses on continued organizing with respect to sustainable energy issues; the latter envisions a sustained public education initiative centered on energy technology and measures. We have also submitted a number of proposals on behalf of the farm project.

We have worked with our coalition members on the renewable energy front to secure funding for marketing the economic development aspects of renewable energy investments, particularly wind energy technology.

Of growing interest to staff over the last few months is seeking support to improve the state of information technology that would allow us to better communicate and serve our members.

In addition, we are exploring ways to pursue a large donor program with the help of board members and local contacts.

Member Communication

We conducted our first membership survey in 2006. It's interesting to note that most of our members are either moderate or conservative. CAC members are very concerned about the costs of heating their homes and health care costs. They are also very well educated. (See details in Appendix I)

We've begun to explore in more detail services to provide us with enhanced e-mail capability in order to begin more of a dialogue with and gain more input from members.

Citizen Leadership

The emphasis during the 2005 annual meeting was to brainstorm on creating a mechanism to provide interested members of the public with the tools to more effectively participate in local and state policy decisions that impact them and their communities.

We have discussed the ideas presented at the annual meeting internally and other groups are thinking along the same lines. We are now in position to approach curriculum design experts that could help us move forward on this critical initiative to enhance public discourse on issues important to people and public participation in government.

This will be a continuing initiative that will take time and effort.

Advocacy Efforts

Overall Approach

What has come through to us from our members and others is that affording basic necessities and quality of life are very important to people. What was once the realm of lower income households, affordability is now a middleclass issue. Moreover, sustainable economic development and quality of life are issues that continue to come to the forefront.

CAC continues to adhere to its position that energy efficiency, renewable energy and distributed (decentralized (i.e. solar and fuel cells)) power investments can effectively address the critical issues of affordability, quality of life, and global warming.

Efforts Before the Indiana Utility Regulatory Commission (IURC)

RATES AND UTILITY MANEUVERS

The prominent issues before us at the IURC are:

- 1) What the energy mix will look like in the short and long term.
- 2) The level of regulation over monopoly utility companies.
- 3) How global warming will be addressed.

All of these issues have an impact on our three main areas of interest: affordability, quality of life, and global warming. CAC is heavily involved in all of them and they are part of every IURC proceeding to some extent.

CAC has tirelessly sought funds for expert witness assistance. Our testimony has consistently pointed out the economic and environmental case for energy efficiency and renewable energy.

Institutionally, it appears that utility companies are incapable of addressing these issues in any meaningful way. They tend to gravitate toward the most expensive options to bolster short term profits and are biased, in Indiana, toward coal-fired power plants.

CAC has made strides in 2006 with respect to energy efficiency. Renewable energy is now before the IURC due to CAC's and its coalition members' efforts in advocating for a Renewable Electricity Standard in Indiana.

CAC convinced Vectren to bring in an expert to discuss how they could integrate carbon regulation costs into their planning process. Other utilities are beginning to look at it.

CAC is still working against the lax attitude toward proper regulation of monopoly utility companies. Utilities are using any number of strategies to bolster revenue on the backs of ratepayers. CAC has been involved in those proceedings (See Appendix II) and continues to work toward equitable solutions for its members and all ratepayers.

IURC HIGHLIGHTS

ENERGY EFFICIENCY

Gas Utilities

Gas utilities in the state are experiencing dwindling revenue due to the high cost of natural gas to heat homes and serve businesses and more efficient furnaces replacing older more inefficient ones. As a result, they are exploring new rate designs that allow them to cover costs and earn a profit.

The current approach is to increase the flat customer charge in order to reduce reliance on volumetric use to meet costs and gain a profit. This is called decoupling because it is designed to decouple profit margin from amount of natural gas used by customers.

In concept, this approach is supported by many organizations, including the American Council for an Energy Efficient Economy (ACEEE.org) because it is an opportunity to increase investments in energy efficiency without cutting into utility profits.

However, the devil is in the details. CAC, the Office of Utility Consumer Counselor (OUCC), and industrial customers engaged in negotiations with Vectren (Parent of Indiana Gas and Southern Indiana Gas and Electric) in order to find an equitable solution to the revenue problem.

CAC, in conjunction with the other parties, was successful in creating the first significant energy efficiency program for Vectren gas customers. However, the OUCC signed off on a decoupling rate design that actually represents a disincentive for energy efficiency. Moreover, although an independent study suggested that Vectren could be spending \$20 million per year on cost-effective energy efficiency in its territory, there is no commitment by the company in the settlement to ramp up to anywhere near that amount.

Despite some setbacks, this is a significant step forward for energy efficiency programs in Indiana. However, there is still an issue with respect to the rate design and the Consumer Counselor's intentions with respect to actually representing customers in these kinds of cases as provided by law.

A recent proposed settlement with NIPSCO is similar but does not exactly implement a decoupling mechanism. NIPSCO has agreed to an energy efficiency program in return

for a higher flat fee. There will be a rate increase. However, efficiency measures will help mitigate that increase. Also, the rate increase NIPSCO will receive will not be as high as the company filing for a full-blown rate increase.

IURC Investigation into a Statewide Energy Efficiency Program

Finally, the IURC is launching an investigation into the possibilities of a statewide energy efficiency program. The initial filing was made by the IURC in 2004. It is unclear why they waited so long. This will be a significant proceeding that may determine the structure of energy efficiency programs in Indiana. CAC will be involved and will invite others to join us from the energy sector who have made energy efficiency a lucrative business. This is a proceeding of significant public import with respect to affordability of utility bills. No other energy resource can produce the savings and economic development opportunities that energy efficiency does. It is the most important approach we can take to address the three looming issues of affordability, quality of life, and global warming.

IURC Attitude toward Energy Efficiency

The results of the Cinergy (now Duke) environmental proceeding are revealing. Cinergy/Duke filed in 2004 an air pollution compliance plan. Of course, their plan was one-dimensional in that it envisioned retrofitting practically all of the coal units in Indiana with pollution control equipment at a cost of \$1.4 billion. CAC's expert testimony suggested that energy efficiency (and renewable energy) could play a major role in compliance. Energy efficiency investments, in particular, could avoid future plant construction as well as (coupled with other resources) allow for the phase out of older and more polluting coal units. This testimony was completely ignored by the IURC.

It is true that utilities, to a certain extent, will embrace energy efficiency in certain contexts and that energy efficiency measures are unavoidable in others. However, we believe that the Daniels Administration's support of coal-fired power coupled with Duke's resistance to comprehensive efficiency programs played a role in the IURC's decision with respect to Duke's air pollution compliance case.

This situation must change. And we will work to engage the public as much as possible in the energy policy debate.

COAL-FIRED POWER: DUKE'S PROPOSED COAL GASIFICATION PLANT

In 2006, Duke Energy (formerly Cinergy) filed a certificate of need with the IURC to receive approval to build a new generation coal gasification plant at its aging Edwardsport facility in Knox County. CAC, along with Save the Valley and Valley Watch, have intervened in the case. It is expected that Sierra Club will also intervene.

CAC has received a grant from the Indiana Utility Ratepayer Trust, formed as a result of the Marble Hill nuclear power plant settlement, of \$100,000 for expert witness and attorneys fees.

The plant costs, by Duke's own estimates, have risen in cost by one billion dollars within a year, from one to two billion dollars. There is no plan to address carbon dioxide emission, despite the fact that many CEOs, including Duke's, believe that carbon dioxide regulations are imminent.

This is an extremely risky venture for ratepayers, given the specter of carbon regulations and that the costs of the plant cannot be determined and continue to rise.

CAC is working with its coalition members to demonstrate that coal-fired power is no longer cheap power. Duke is a prime example. Its compliance strategy and newly proposed plant will increase rates for PSI customers over 30%. The fact that the plant will substantially increase carbon dioxide emissions in Indiana and that carbon mitigation is not designed into the plant or by other means points to the lack of sound planning by Duke executives.

RENEWABLE ENERGY

There was little or no interest by Indiana's electric utility companies in wind until House Bill 1379 was filed during the 2006 legislative session. The bill would have created a Renewable Electricity Standard for the state. (See below) Duke Energy has filed a petition to purchase 100 megawatts of power from a wind farm in Benton County. AEP is looking at sites in Randolph County. IPL has also expressed interest in a wind project.

Obviously, the utilities are attempting to control the situation. They feel compelled to invest in renewables, particularly wind, because it is relatively inexpensive and because they are attempting to head off Renewable Electricity Standard in the 2007 General Assembly.

This clearly demonstrates the business case for renewable energy. It also demonstrates the need for public policy to ensure that renewables hold a prominent position in Indiana's energy mix.

LOW-INCOME ASSISTANCE AND WEATHERIZATION

Last session we worked in coalition to repeal the state sales tax on the Federal heating assistance dollars which generated an additional \$2.7 million for aid. We also worked before the IURC to extend the Universal Service Programs offered by Citizens Gas and Vectren and worked to improve the NIPSCO approach. A settlement has been reached to extend the programs through next May, although we wanted them to run for another 18 months to get a better picture of the impact they are having and to build a stronger business case for the programs.

This coming session we will pursue a number of bills which, when taken together, can go a long way to breaking the vicious cycle of disconnection.

We held a public forum in Gary recently to call attention to the growing need and we have other efforts in the works to continue public pressure.

Efforts Before the 2006 Indiana General Assembly

TELECOMMUNICATIONS

It was clear during the summer of 2006 when the chairman of a legislative study committee refused to let anyone speak about telecommunications except AT&T (formerly SBC) and its allies that CAC and its allies were going to have an uphill battle in the legislature in stopping AT&T's deregulation bill.

Although there was no evidence to suggest that AT&T should have a blank check, by deregulating these giant monopolies, the General Assembly handed AT&T and Verizon a blank check when it passed House Bill 1279. This was an initial loss for consumers. However, chances are, it will come back to haunt the supporters of the bill.

The legislation will allow AT&T and Verizon to set its own rates, determine where it wants to provide local service, allow them to effectively eliminate competitors across the telecommunications spectrum, and avoid investing in high-speed internet services. The bill also eliminates the doctrine of universal phone service, phone service provided to everyone at a fair price. Finally, the legislation eliminated quality of service standards so we can expect the phone system to slowly deteriorate over time.

The \$250 million investment in DSL announced by AT&T was a rouse. The dollars were obviously available prior to the passage of the legislation and it most likely will not have anything to do with fiber-optic investment. AT&T will milk the existing system as long as it can. It is also unclear whether the investment was already part of the IURC orders passed a few years ago that mandated expansion of DSL service. Once those orders expire in a few years, we can expect rate increases across the board and a deterioration of service quality.

RENEWABLE ENERGY

After an updated wind capacity map was issued for Indiana by the Indiana Department of Commerce in the early 2000s, wind developers began to take particular interest in Benton County, Indiana. As it happens, developers estimate that as much as 500 to 700 megawatts of wind capacity exist in the County.

For a few years, wind developers were not getting anywhere with Indiana utilities in terms of agreements to purchase power from their proposed wind farms. This went on until Don Lehe (R – Benton County) filed House Bill 1379 during the 2006 legislative session.

The legislation was designed with the help of Orion (a wind developer out of California) and the Environmental Law and Policy Center out of Chicago. CAC was contacted and discussions began with respect to forming a coalition around the concept proposed in HB 1379, namely a statewide Renewable Electricity Standard.

Twenty states have an RES. An RES provides that electric utilities furnish a certain percentage of their power with renewable technology over a certain timeframe. In our case, the proposal was 10% renewable power by 2017.

The name of our coalition is the Indiana Coalition for Renewable Energy and Economic Development. More information about the coalition can be found at www.indianacleanpower.com. It consists of economic development organizations, renewable energy businesses and consumer, environmental and labor organizations.

ICREED members have made many presentations to many organizations. We have secured funding for the effort, including generous contributions from the Ironworkers and Energy Foundation.

We have three major issues to address. Contrary to initial utility assertions, we have made a convincing argument that Indiana possesses significant wind capacity that is economic to use. Secondly, we are dispelling the assertion that coal-fired power is inexpensive. It is highly expensive in terms of new construction and the public health costs exacted by pollution from currently operating coal plants. Third, we are working to dispel the argument that an RES would be expensive for ratepayers. Indeed, we commissioned a well done study that indicates that over a ten year period rates would increase only 2%. That's a far cry from the 30 plus percent increase for PSI customers if Duke builds it power plant on top of the other recent rate increases for PSI ratepayers.

The rate impact study can be found on the ICREED Web site. Also on the Web site is ICREED's testimony before a legislative summer study committee that addresses all the major issues with respect to a statewide RES.

Finally, Coalition members have built up bipartisan support in the Indiana House and Senate.

Member and Policy Maker Outreach

MEMBERSHIP SURVEY

The membership survey has been discussed. Details can be found in Appendix I and on our Web site at www.citact.org.

CANDIDATE SURVEY

CAC sent out a candidate survey and posted the results on the CAC Web site. Only about 30 candidates responded out of a possible 190 or so. We will work to encourage more participation in an effort to inform CAC members and the public of candidate positions on CAC issues. By and large, the candidates, who responded, supported CAC positions. Only a few deviated from our position on the majority of issues.

Research and Information Gathering

WEB SITE

CAC is working to consistently provide updated information on energy and farm issues on the Web site. Every week we publish Repowering Indiana Weekly which is a compilation of articles from around the country with respect to energy technology and policy. We have also condensed a number of studies and articles for public consumption.

E-NEWSLETTER

CAC published its first e-newsletter which can be found on the Web site in 2006.

WHITE PAPERS

During 2006 we published a number of white papers and have one in-process. During the legislative session we published a comprehensive paper on telecommunications policy and why the AT&T bill should not have been passed. We have a synopsis of our campaign finance report on our Web site and are working to get the details up by the end of this year. CAC also was instrumental in securing funding for the RES Rate Impact Study. Our white paper on national health insurance is being edited and will be published at the beginning of 2007.

Grassroots Organizing

During the last year CAC has been organizing in 17 counties to ensure that confined animal feeding operations are properly sited and have minimal impact on neighboring property values. This includes working at the local level on ordinances that address health and environmental concerns.

Emerging Issues/Priorities

Staff will be working on funding major technology upgrades that will enhance our ability to dialogue with members and provide needed information to members as we move ahead on the legislative front and before the IURC. These include upgrades with respect to our membership database and e-communication with members.

Legislative Priorities for 2007

The Renewable Electricity Standard will be a top priority. In terms of low-income issues, we will pursue utility deposit reform, additional heating assistance funding, reporting legislation to get a better picture of need among low- and fixed-income households and will work to keep Federal heating assistance dollars from being taxed by the state. We also expect Indiana utilities to push for higher profits on transmission investments and more incentives for them to build coal-fired power plants. We also expect legislation from the Pork Producers that is designed to eliminate local control over the siting and operation of confined feeding operations.

Priorities at the Indiana Utility Regulatory Commission for 2007

We will continue to push the sustainable energy agenda with utilities and regulators. Specifically, the biggest issue looming for CAC and its members is the proposed Duke power plant. The plant is looking more like a financial debacle every day. We will be communicating through our Web site, canvass, and the media to keep the public informed.