**Citizens Action Coalition * Sierra Club Hoosier Chapter**
**Valley Watch * Spencer County Citizens for Quality of Life (SCCQOL)**

## NEWS RELEASE

**For Immediate Release** **Contact: Kerwin Olson**
**March 24, 2010** **John Blair**

# INDIANA'S ENRON
## EXPERT: SNG Plant raw deal for ratepayers

Testimony was filed with the Indiana Utility Regulatory Commission in opposition to a murky, risk shifting plan for a coal-gasification plant proposed by New York-based Leucadia Corp. for Rockport, IN. The plant is intended to convert coal into pipeline quality gas, called substitute natural gas or SNG. However, ratepayers are not paying for service or delivery of the SNG to customers. Instead, ratepayers would be forced to gamble on the plants profitability by paying for a "derivative" or financial contract intended to shift the risks to ratepayers if market prices fall below the plants' costs.

Leucadia has had a difficult time getting the project off the ground. After the state legislature suspended all consumer protections with respect to power plant construction for Leucadia in legislation in 2007 and negotiations between Leucadia and Indiana's major gas utilities failed, Governor Daniels introduced legislation in 2009 to have the State sign a contract with Leucadia to force ratepayers to finance construction of the plant. The Indiana Finance Authority (the state's bonding agency) recently signed a contract with Leucadia to shift all business risk from the company to ratepayers for 30 years.

Four Indiana watchdog groups, Citizens Action Coalition, Hoosier Chapter of Sierra Club, Valley Watch and Spencer County Citizens for Quality of Life, retained Robert McCullough of McCullough Research, a national expert, to review the contract. Mr. McCullough has worked in the energy field for over 30 years and was instrumental in unraveling the Enron accounting scheme that precipitated a Department of Justice investigation of the company.

The testimony reveals a complicated "derivative" scheme based on the price of various commodities over time. Customers are not paying for service, or a natural gas substitute, but instead are paying for a financial hedge to cover the losses and share in the profits, if any, that the plant's owners might make. Mr. McCullough's testimony shows that if the contract were in place today, it could lead to a loss to ratepayers by as much as $500 million.

Grant Smith, executive director of CAC, said, "In terms of this contract, we have to remember that Indiana's gas utilities thought that the risk of signing a 30 year contract to take SNG from Leucadia's coal plant was a bad deal, even when they were guaranteed cost recovery. The testimony filed today bears this out. What needs to be most understood here is that Indiana gas customers will not receive any of the SNG. They are not paying for service. Rather, the SNG will be sold on the market and ratepayers are penalized or rewarded based on a complicated derivative scheme."

Kerwin Olson, program director for CAC, said, "What the State and Leucadia are doing is forcing ratepayers to gamble on a deal that no one would accept voluntarily. The risks and the odds against ratepayers are just too high. The $150 million provided by Leucadia to cover losses will be gone within a few years. After that, ratepayers pick up 100% of the losses. This is Enron all over again."

John Blair, President of Valley Watch stated, "It is this 'forced' mandate that requires Hoosier ratepayers to be the buyer of last resort should the State's marketing partner fail to find a purchaser who desires to pay more for SNG than natural gas, that Valley Watch objects to most."

Similar to Duke Energy's scandal plagued IGCC; cost overruns are inevitable for this project. Chances are they will be much higher than Leucadia projects, in which case ratepayers will be on the hook. The derivative also puts ratepayers on the hook for volatility in the price of coal, CO2, and various other commodities.

Steve Francis, Chairperson to the Hoosier Chapter of the Sierra Club added, "The coal plant proposed by Leucadia is similar in design and uses nearly twice as much coal as the Duke Edwardsport coal plant currently under construction. At this time, there is nothing in place to assure that greenhouse gases are not released, and over half of the CO2 will never be captured in the synthetic gas burned. Like the Edwardsport plant, this plant cannot be built without shifting construction and operating risks onto captive ratepayers. Through this unprecedented sweetheart deal, the state of Indiana is now involved in securing the purchase of product which will force ratepayers to assume all of the risk, while Leucadia has nothing to lose and everything to gain."

Smith continued, "What we have found is the exact opposite of what proponents for the plant are asserting. Rather than the contract protecting ratepayers, it ensures that Leucadia will receive a profit from the plant on the backs of ratepayers. If the SNG cannot compete on the market – which is likely to be the case - the ratepayers pay the difference. If the SNG can compete and money is made, it is split between ratepayers and Leucadia – unless, of course, coal prices rise or Leucadia has to cover cost overruns accrued during construction of the plant."

Stephen Obermeier with Spencer County Citizens for Quality of Life, or SCQOOL, concluded: "Our group is against the plant for environmental as well as economic reasons. Spencer County already has very high levels of industrial pollution from a huge coal plant and other industrial polluters. Spencer County shares the honor of being highest polluter in Indiana with Lake County, depending on the year, and we only have a population of 25,000. Allowing construction of this plant will only exacerbate this injustice, and for that reason, there is wide spread opposition to this plant in Rockport and all of Spencer County."

A copy of the pre-filed testimony of Robert McCullough, Kerwin Olson, John Blair, and Stephen Obermeier is available upon request.

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Grant Smith, Executive Director for Citizens Action Coalition:

Steve Francis, Chairperson, Sierra Club Hoosier Chapter:

John Blair, President, Valley Watch:

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