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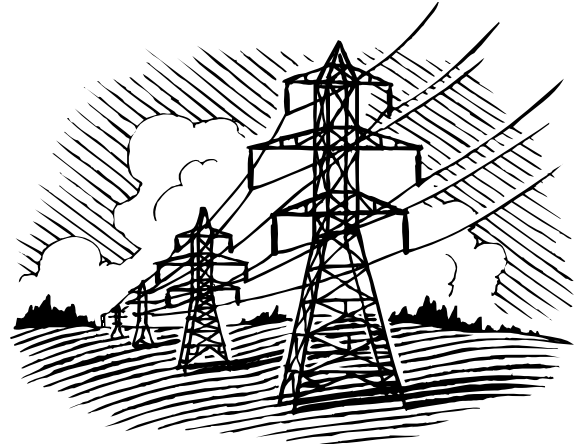
**Turning On Citizen Power**

**[www.citact.org](http://www.citact.org)**

## **The Trouble with Trackers**

Indiana's major utility companies (Duke, AEP, IPL, Vectren, NIPSCO) provide retail electric service essential to the health and vitality of Indiana, its economy, and its citizens. They have been granted state franchised monopolies that protect them from competition and guarantee them profit in exchange for providing adequate and reliable electricity service at the lowest reasonable cost to the public.

However, once local utilities are now part of growing corporate empires that stretch over many states. As a result, the public service aspect of their business has virtually disappeared. Moreover, the lobbying efforts of these monopoly utilities is erasing the regulatory compact and legal balancing act between utilities and ratepayers interests.



Nationally, significant deregulation occurred during the 1990s under the pretense of competition. The idea was that ratepayers were going to have a choice of supplier and those owning power plants would compete for customers. What happened, however, was further consolidation of the industry and entrenching of monopolies who gamed the deregulated system to receive windfall profits. The manipulation of gas markets and electric wholesale markets continues on a smaller, but still, detrimental scale today.

Indiana avoided the catastrophe of near total deregulation the utility industry won in other states. However, Indiana's utility industry has found ways to force, through law and regulation, virtual (or backdoor) deregulation.

CAC, with the critical and necessary support of its members and other citizens, has kept the floodgates from opening. However, as a spokesperson for some of Indiana's industrial energy consumers once quipped, the current utility deregulation approach is "like being nibbled to death by ducks."

Since 2002, Indiana's large gas and electric utilities have aggressively implemented the following strategies:

- Recover costs from ratepayers as quickly and automatically as possible;
- Reduce or eliminate regulatory oversight of planning, revenue, and profits;
- Create new incentives on top of their cost-plus rates to increase their rate of return (profit) for making investments they are already obligated to do under the law.

The preferred, utility regulatory and legislative approach that forms the basis for accomplishing these goals is the imposition of "automatic rate adjustment mechanisms" or "trackers." These 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 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. The trouble with trackers is that they:

- Severely weaken the regulatory process and the consumer protections that now exist in that process; and
- Completely undermine Indiana's ability to jumpstart a market for renewable energy technology in the state.

**In the 2007 Indiana State legislative session**, we saw an attempt at what in essence amounted to backdoor de-regulation of the utility industry in the form of a number of bills including trackers. CAC, in collaboration with the Indiana Industrial Energy Consumers (INDIEC), was successful in defeating several tracking provisions that would have allowed them to profiteer at the expense of captive ratepayers:

### **Advanced Metering**

- The utilities wanted to have trackers for expensive electric meters so that electric utilities could reduce their costs and increase profits by charging customers higher rates during peak usage times and lower rates at other times during the day.

### **Pollution Control Equipment**

- These provisions would have kept obsolete coal-fired power plants running by allowing the utilities to have trackers for air pollution control equipment regardless of cost and regardless of cheaper, cleaner alternatives, such as energy efficiency and wind technology, which can meet electric energy demand and reduce air emissions, including carbon dioxide, the main contributor to global warming.

### **Transmission & Distribution**

- These tracking provisions would have provided automatic incentives for utilities for investments they are already supposed to be making to maintain quality of service, such as investments in transmission lines and local distribution systems; and
- Allowed the utilities to have trackers that force residential ratepayers to pay for the transmission lines that need to be extended to new ethanol plants, even though this is a cost traditionally shared by the utilities and their industrial customers. Because the market for ethanol is still unstable and risky, the utilities attempted to force residential customers to bear the brunt of the risk so they wouldn't have to.

### **Experimental Technology**

- Coming up in the 2008 Indiana State legislative session, we expect that the utilities will also attempt to pass legislation allowing them to track the cost of carbon capture and sequestration projects. This technology, according to the industry, is 15 years away. Stockholders, not ratepayers, should pay for experiments whose technologies and costs are not well understood and may never become commercially viable.

**Coming up in the 2008 Indiana State legislative session**, we expect that the electric utilities will again attempt to pass tracker legislation as an end-run around the utility regulatory process. By allowing utilities to implement trackers, the Indiana State Legislature and Regulatory Commission assume the necessity of and reward upgrading aging and obsolete coal-fired power plants, regardless of cost; **and ignore cost-saving investments in energy efficiency measures and non-polluting renewable energy resources**, such as wind, solar and biomass, to hedge against the huge costs soon to be associated with the regulation of carbon dioxide emissions. **The IURC recently testified before legislators that they have the authority to approve appropriate trackers and that additional legislation is not necessary.** The utilities, knowing that the trackers they seek do not fit the criteria for approving trackers, want to avoid that problem by legislating otherwise inappropriate trackers. Since no additional legislation is needed to approve and regulate reasonable and appropriate trackers, a legislator's support for trackers means one of two things:

- 1) They are ignorant of the issue and possibly being misled by utilities and their lobbyists; or,
- 2) They are sacrificing your interests on behalf of electric utilities.

## **Take Action!**

Tell your State Senator and State Representative to oppose any utility legislation that contains tracking mechanisms for advanced metering, transmission and distribution, or compliance with future environmental regulations. Remind them that the IURC testified that it has all the authority it needs to approve trackers where appropriate, so that any tracking legislation is unnecessary and will serve only to increase the profits of monopoly utilities at the expense of ratepayers. Let them know that ratepayers need legislation that will promote energy efficiency and renewable energy because this will create jobs, save ratepayers money, and go a long way toward improving the environment and the health of all Hoosiers.

| <b><u>Your State Legislators:</u></b> | <b><u>Indiana House of Representatives</u></b>                            | <b><u>Indiana State Senate</u></b>                                        |
|---------------------------------------|---------------------------------------------------------------------------|---------------------------------------------------------------------------|
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