



Electric Generation Efficiency Project

project burns less coal, lowers customer bills and reduces emissions

What is the new electric project Vectren has proposed?

In September 2011, Vectren filed a request with the Indiana Utility Regulatory Commission to install state-of-the-art technology on two coal-fired electric generation units at its A.B. Brown power plant in Posey County, Ind. Known as dense pack technology, this equipment is an energy efficiency upgrade to the turbines that allows Vectren to produce the same amount of electricity, yet burn less coal than it takes today to do it.

What if it doesn't perform?

With similar projects, Vectren has seen substantial improvements in the generation unit's efficiency. This technology has already been successfully implemented on Vectren's Warrick unit 4, which is a 300-megawatt unit located in Warrick County and jointly owned with Alcoa. If this technology does not perform to minimal standards, Vectren will not be allowed to recover project costs without seeking cost recovery through an official rate case.

MYTH: This project will raise residential electric bills by \$1.08 per month.

FACT: It is true that customers pay for investments/projects at Vectren power plants. However, because this project results in burning less coal to produce the same amount of electricity, the customer bill impact from the capital investment will be offset by less fuel costs. Customers pay for fuel costs, which is the cost of the coal burned to produce the electricity. Because less coal will be burned, the bill increase to pay for the technology is offset by the reduction in fuel costs. Therefore, **residential electric bills WILL NOT increase by \$1.08. This project pays for itself starting on day one. In fact, the net bill impact of this project is a bill reduction**, and those annual savings will continue and increase throughout the life of the project. At no point in time are cumulative costs to customers expected to exceed their cumulative savings.

MYTH: Vectren will recover all costs of the dense pack project from customers before it comes online.

FACT: The total cost of the project will be recovered over 36 years.

How will this project benefit customers?

The dense packs will produce **bill reductions** of approximately \$60 million over the useful life of the project, which is 36 years. These reductions will be spread across all customer classes - including residential, small commercial and large commercial and industrial. As such, the \$32 million dense pack investment will more than pay for itself. The total bill reduction for an average residential customer over the life cycle of the project is expected to be about \$100 depending upon coal costs and the realized efficiency rating of the generation units.

How does the project lower bills? And are there other benefits?

Essentially, the costs of the technology are offset through a reduction in coal burned; i.e. lower fuel costs. Customers pay for fuel costs, which is the coal burned to produce electricity. By law, the fuel cost charge is passed on to customers on a dollar-for-dollar basis. So, when Vectren burns less coal, the customers benefit immediately.

Furthermore, in burning less coal, air emissions are reduced and less coal ash is produced. These benefits will help control and/or reduce costs associated with environmental compliance and enhance Vectren's ability to meet current and future Environmental Protection Agency rules. Additional cost savings will be realized by reduced wear and tear on the units, thereby prolonging the time between required maintenance outages. In fact, major turbine maintenance, which normally is required every seven years, should only need to occur every 10 years. Finally, the project will help conserve a key natural resource, southwestern Indiana coal.

When will this project start?

One unit is expected to be operational in 2012, and the other will follow in 2013.