

Global Climate Change; Carbon Cap and Trade

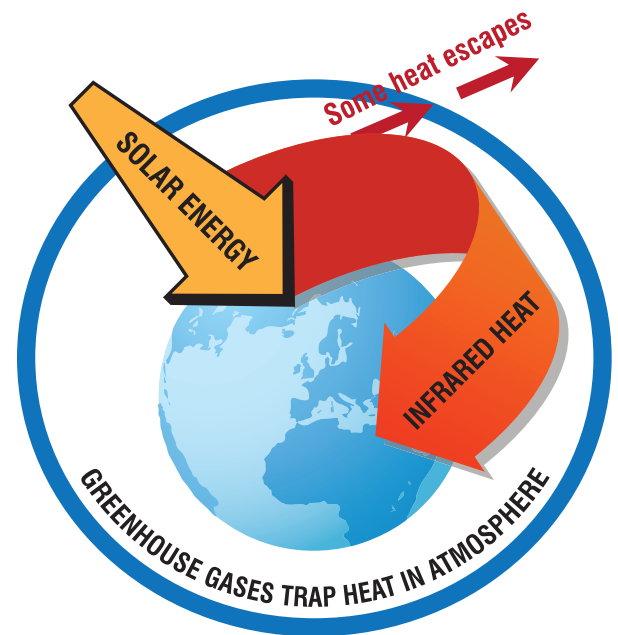
Vectren Fact Sheet

Earlier this year, carbon legislation was proposed, and now Congress is debating exactly what the bill will entail. We want you – the Vectren customer – to understand this potential legislation and how it will impact you and every other American household and business.

What is carbon?

Most scientists believe the root cause of global warming, or climate change as it's sometimes called, is man-made: driving cars, flying airplanes, manufacturing or burning coal to generate the electricity we use. In other words, when we burn fossil fuels, like coal or gasoline, we emit greenhouse gases such as carbon dioxide and methane that are classified together as "carbon." Without these greenhouse gases the planet would be so cold as to be uninhabitable, but too much of them can lead to warmer temperatures. And most believe it's our increased emissions of carbon that has led to recent indications of climate change.

Excess greenhouse gases in the atmosphere prevent the Earth's heat from escaping into space.



What actions have been proposed?

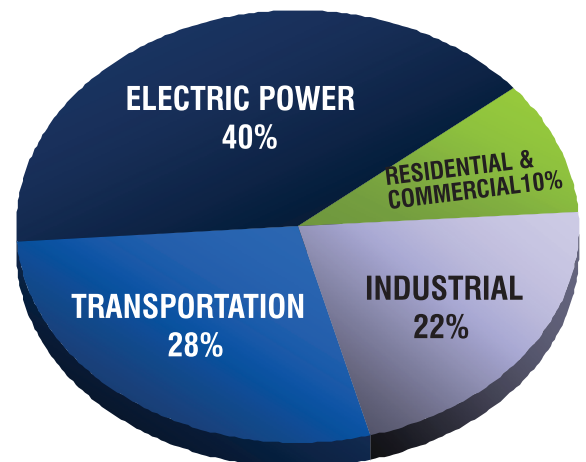
The bill before Congress calls for a 20% reduction in carbon emissions by 2020 and an 83% reduction by 2050. Up for debate is the process on how we, as a nation, meet these reductions. The primary plan is to do so through a cap-and-trade program.

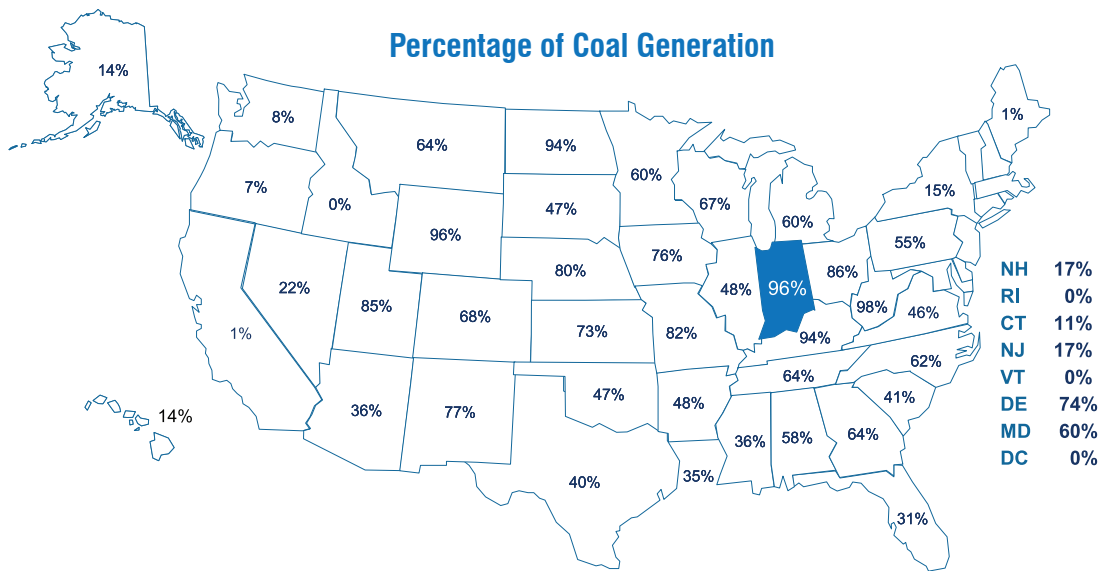
What is cap and trade?

Under a cap-and-trade program, total carbon emissions will be capped nationwide, and the cap will be progressively lowered. Emission allowances (one allowance equals one ton of emissions) must be surrendered each year by emitters in an amount equal to the annual emissions of the company. Essentially, electric utilities will be granted or required to buy allowances (the right to emit one ton of carbon) from the government. A key point up for debate will be the decision about the allocation of how many allowances will be free and how many will have to be purchased through an auction process as well as the number of allowances that will be granted to the utility industry. Keep in mind: electric utilities aren't the only emitters of carbon (see pie chart); and others will be fighting for the same pool of allowances.

For every ton of carbon emitted over 25,000, there will be a price per ton carbon tax, which will likely begin in the \$20 to \$40 range. This may not sound like a big price tag, but considering Vectren emits approximately 8 million tons of carbon annually, the costs quickly add up.

Sources of Carbon Emissions





How will cap and trade impact the Midwest?

Our concern with an aggressive cap-and-trade program lies in our nation's reliance on coal. Coal is used as the power source for more than 50% of our nation's energy needs and 96% of Indiana's. Under the auction approach, customers in the Midwest, who mostly rely on coal-fired generation, would instantly pay much more due to coal's higher emissions.

The problem: There is no commercially-available technology to capture carbon emissions on existing power plants, so reducing emissions instantly would prove very difficult. Furthermore, there is no solution on what to do with the carbon once captured.

What's the right solution for reducing carbon emissions?

Vectren strongly advocates for a cap-and-trade program that would initially provide for more free allowances. Providing a larger percentage of free allowances rather than a high percentage of auctioned allowances would give time for proven carbon capture technology to develop over a period of several years. Utilities and customers could work together to reduce emissions during this period, such as tapping more renewable resources and implementing energy efficiency programs, while waiting for carbon capture and sequestration technology to emerge. The number of free allowances would gradually be reduced over time to ensure utilities and other emitters are indeed focused on reducing emissions.

What's the bottom line?

Energy bills will be impacted. National and regional estimates have shown electric rates across the Midwest could rise between 50 to 130 percent over the next 25 years. Predicting exact bill impacts over the next two decades proves difficult given the unknowns surrounding allowance costs.

But this is not an effort to defeat the bill. We must work together to attack climate change, but we must do it in a way that treats all ratepayers fairly – especially during these difficult economic times. We need to fight for a gradual transition to a carbon-constrained world. Carbon legislation can't be considered a success if customers can't afford to keep the lights on or if businesses are forced to close or go overseas because of challenging energy costs. We're at a critical crossroads in our nation's history. We need to solve climate change, but the solution has to be fair and work for all Americans. We need your help!

We ask that you join Vectren in urging your Congressional leaders to:

1. fight for more zero-cost (free) allowance allocations to coal-based electric generators, like Vectren and other electric utilities across the Midwest;
2. ensure that any proceeds from auctioned allowances are used to fund research and development for carbon capture technology and to lower bills rather than using the money to fund other government programs; and
3. allow a three to four-year transition period before enacting the legislation.

Who should you contact?

Reach out to our Indiana and Ohio legislators. A sample letter and links to these Congressional delegates can be found at www.vectren.com.