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PUCO



March 16, 2005

Renee Jenkins, Secretary
Public Utilities Commission of Ohio
180 E. Broad Street, 13th Floor
Columbus, Ohio 43215

Re: Case No. 04-571-GA AIR
Case No 04-421-GA-AAM
Case No. 04-794-GA-AAM

I'm writing on behalf of the Ohio Chapter of the Sierra Club in support of the argument being advanced in the Vectren cases above, for regulatory enforcement of cost-effective efficiency programs and regulatory treatment of the affected revenues to remove inherent conflicts of interest between the company and its customers. We have many members who are Vectren customers.

The Sierra Club with its 20,000 Ohio members has maintained a strong interest in utility energy efficiency programs here for over twenty years. During that time we have seen a fledgling program started up within electric utilities, and then condemned without reason, perhaps in the mistaken assumption that deregulation was a magic wand that would cure all market failures.

Many other states have proceeded with such programs and now Ohio is at the losing end of many trends - we fail to take advantage of the powerful economic stimulus provided by modernizing our energy infrastructure - we fail to attract bright minds and enterprising businesses who would flock to the new and large marketplace for improved technologies that would open up immediately if Ohio had such programs. We fail to advance in important technologies including combined heat and power and we fail to keep pace with other states whose leadership in efficiency programs enables their businesses and industries to compete better against ours.

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North America has completely outgrown its capacity to produce natural gas at the same rate as our consumption is growing, and within a few years the entire future output of all known natural gas resources, including Canadian and Mexican offshore resources will be contractually obligated. We literally cannot build enough facilities to import Compressed Natural Gas from overseas suppliers fast enough to prevent a collision of supply and demand.

In the absence of a firm public policy to overcome inherent barriers, disincentives to efficiency, and the reluctance or lack of education about available opportunities to embrace cost-effective efficiency technology these conditions will produce only hardship and a drag on economic growth. Ohio's failure to move forward in this direction would not be so tragic if there were not a broad and well defined record of the existence of these barriers and the enormous potential to reduce them in the other states that have been more aggressive.

While the Ohio Consumer's Counsel position seeking \$750,000 in low-income energy efficiency and \$2.4 million in base rates for non-low-income energy efficiency is appropriate for the moment, it will be necessary to fund these programs to approximately three percent of retail sales in order to produce a steady modest reduction in greenhouse gases from Vectren's activities. That appears to be some three to four times as large as OCC is presently requesting. While PUCO does not have an immediate responsibility to control greenhouse gases it will prove that it is possible to achieve both the net reductions and the optimization of customer benefit from Vectren's activities in Ohio should the PUCO adopt a properly designed mechanism of decoupling revenues from the volume of sales. PUCO clearly has a responsibility to ensure that rate design is not creating powerful disincentives for Ohio utilities to promote sales at the expense of customer's economic well-being. Sierra Club believes that current rate design does so. And Ohio is the second largest source of greenhouse gasses in the U.S. on a per capita basis. Regulatory control of CO2 emissions is in the future of Vectren. Because of the integral relationship between the use of fossil fuels and CO2 emission any entity which begins pursuing cost-effective efficiency will be better off than one which does not, when those regulatory changes occur.

As OCC's testimony about the natural gas crisis in the Midwest makes clear, it is impossible to separate the role of electric generation from other natural gas consumption, and as long as that is the case, natural gas efficiency will provide benefits to electric customers as well as natural gas customers. Provided it is done on a scale that is pertinent to the size of the industry.

With the rapidly increasing evidence against ozone and fine particulates as serious threats to human health the urgency of reducing unnecessary waste of natural gas is increased both because of the pollution impacts of the waste and the value of natural gas as an alternative to more polluting fuels.

Ohio imports the majority of all its fossil fuels and the market does work well enough to ensure that any reduction in fuel consumption will reduce out-of-state purchases as well as lowering the cost of domestically produced fuels.

Should the PUCO find that it is not possible to comply with these objectives in some reasonable way in this case it should take the time to spell out in considerable detail what it believes the barriers to regulatory establishment of efficiency programs in this case are. Ohio's economic health depends on swift changes to these and other barriers to efficiency.

While Ohio's electric utilities were of different minds about the past efficiency programs, the case in which the issue was decided affected the CENergy company, which did and does continue to support efficiency programs, provided adequately timely rate recovery of program expenses is allowed. Natural gas companies have considerably lower barriers to end-use efficiency, and Vectren's proposal of a decoupling mechanism and more modest efficiency measures indicates openness to being on the side of its customers in this case. All that needs to happen is for the PUCO to make that possible.

Sincerely,



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