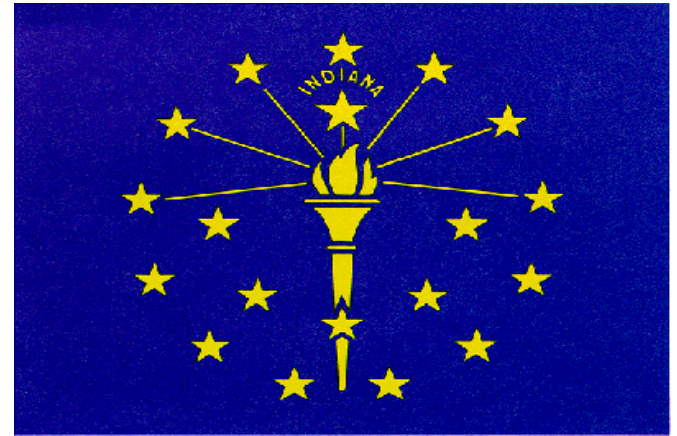




Recent Developments in the Indiana Energy Sector

Joseph M. Sutherland
Chief Operating Officer

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Recent Changes at the Indiana Commission

Key Issues Facing the Commission...

- Agency transition to new leadership.
- Implementation of new federal Energy Policy Act.
- Extremely high natural gas prices expected this winter.
- Possible expansion of clean coal technologies.

Recent Changes at the Indiana Commission

New Commissioners Arrive...

- Over the summer Chairman McCarty and Commissioner Ripley departed.
- New Chairman David Lott Hardy and new Commissioner Greg Server have both been with us for about one month.
- The staff has remained unchanged.

Energy Policy Act (EPACT) of 2005

Highlights of EPACT:

Federal Energy Regulatory Commission (FERC)

- New authority for FERC to oversee the reliability of the transmission grid by enactment and enforcement of reliability rules.
- “Backstop” authority to site transmission lines.
- Strengthened merger review authority to help prevent market manipulation.
- Increased authority for FERC to scrutinize inter-company transactions to safeguard against affiliate abuse.

Energy Policy Act (EPACT) of 2005

State Commission Directives

- Encourages the States to form “Regional Compacts” to address complex issues that do not fit neatly in federal jurisdiction but also involve more than a single individual State.
- Requires State Commissions to consider “real-time” and “time-of-day” pricing as a means of reducing the use of electricity during expensive peak times – particularly when reliability is a concern.
- Directs the States to adopt fuel efficiency standards.

Energy Policy Act (EPACT) of 2005

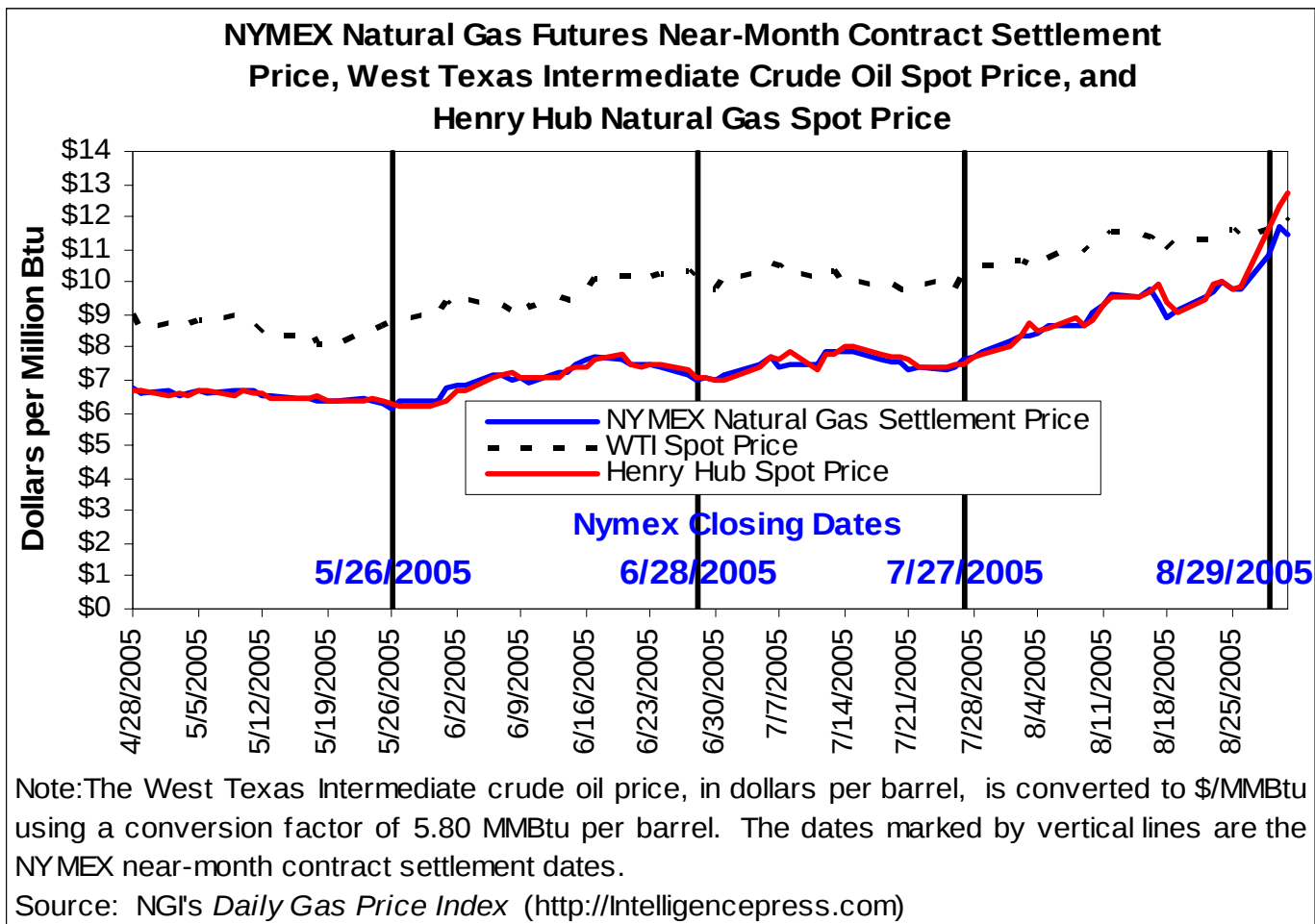
Other Items of Interest

- Provides incentives for power plant and transmission line construction.
- The Act specifically provides incentives to build future generation facilities that use clean-coal technology.

Natural Gas Prices are Increasing Significantly

Several Factors are Driving Prices Higher...

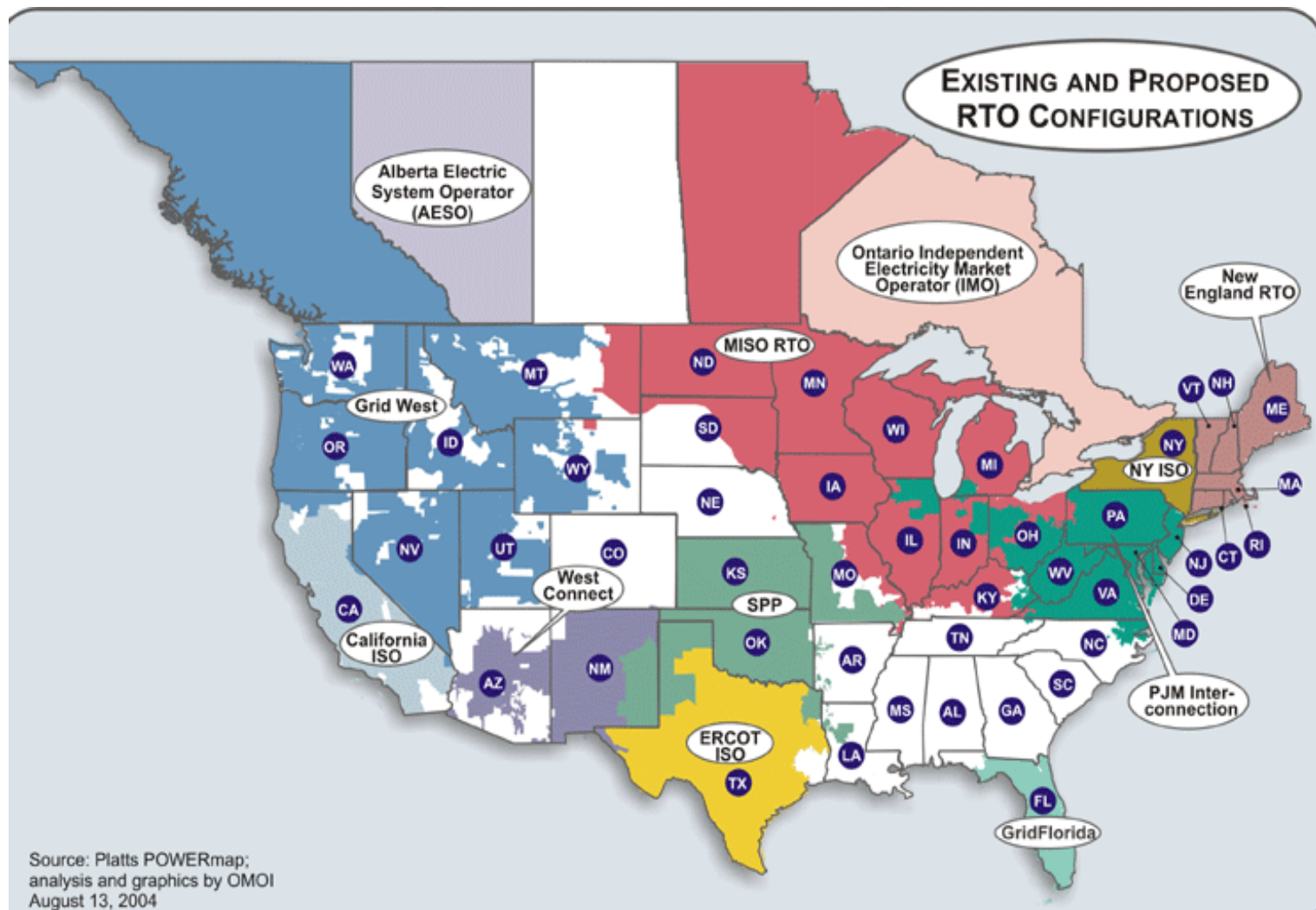
- Over the past 5-7 years natural gas has been used more extensively for electricity production creating pressures on supply.
- Production has struggled to keep pace with demand.
- Natural gas is viewed as the clean energy alternative to coal.
- Hurricanes over the past two months have devastated the U.S. gulf coast region where many production facilities are located.



Development of Energy Markets

Regional Transmission Organizations

- Not all States like them
 - State Commissions have formed regional organizations to address RTO issues.
- Major RTO Issues
 - Still struggling with how to pass through financial benefits of the system to consumers.
 - Some benefits such as reliability are difficult or impossible to quantify. All Indiana utilities have said, however, that reliability in the Midwest has never been better.
 - Will RTOs some day be able to provide real-time retail prices to end-users?



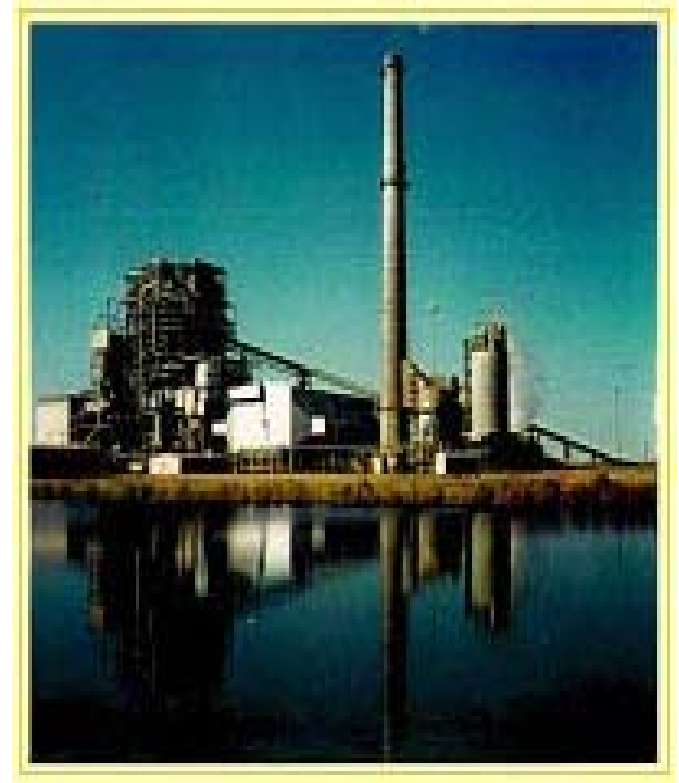
Developments in Electricity Generation

A Critical Component of National Energy Policy is the Type of Future Generation that Should be Built...

In 1998 and 1999 the Midwest experienced significant price spikes.

Many peaking power plants were built in response to both the price and load spikes experienced by the market during this period.

The peaking units were largely powered by natural gas but as gas prices have sharply increased these plants have become financial liabilities.



Developments in Electricity Generation

Additional Generation Issues:

- The need to built additional generation in the U.S. is growing.
- Many base load units are approaching the end of their useful life and were not designed to achieve today's more rigorous Clean-Air standards without substantial investment.
- A significant debate is now occurring regarding the fuel of choice to generate electricity in the future.
 - Is coal too dirty? What are the realities of clean coal technology?
 - Is gas too expensive?
 - Can the issues of safety and storage be overcome to make nuclear power a viable alternative?
 - What are the prospects for alternative fuels and conservation?

Developments in Electricity Generation

RTOs Can Be Part of the Solution...

➤ The Problem:

- It is difficult to secure permits to construct new facilities.
- Increased demand is a reality.
- Aging facilities must be replaced.
- There is a need to clean the environment.

➤ Regional “Capacity markets” can help address these issues efficiently

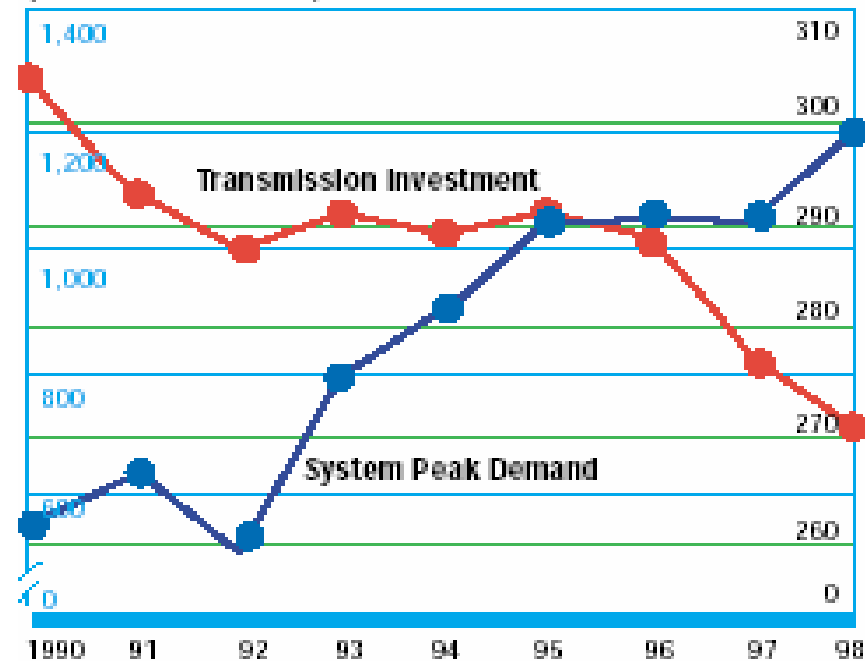
Developments in Transmission

The U.S. has underinvested in transmission infrastructure for many years.

RTOs will hopefully help us get more out of existing wires by clearing system congestion with the use of real-time prices as opposed to terminating traffic to problem areas.

RTOs also help us efficiently target investment resources towards the most cost-effective alternative.

U.S. Investment in New Electric Power Transmission
(Millions of 1990 Dollars)



Growth in peak demand for electricity has far outstripped investment in transmission capacity. As a result, transmission constraints could aggravate already limited supplies of power and could result in high prices in some areas of the country.

Source: PA Consulting Group, based on data from the EIA data base.