

July 15, 2008

The Honorable Mitchell E. Daniels, Jr.  
Republican Candidate for Governor  
47 S. Meridian Street, 2<sup>nd</sup> Floor  
Indianapolis, IN 46204

The Honorable Jill Long Thompson  
Democratic Candidate for Governor  
804 N. Delaware Street  
Indianapolis, IN 46204

Dear Governor Daniels / Dear Ms. Thompson:

***Your Charge With the Environment and Energy***

Indiana's energy future is at a crossroads. Demand for water and electricity is growing as our population and economy grow. The state has an abundant coal reserve and new renewable energy projects, but also shrinking baseload electric reserve margins, rising natural gas prices, and historically high gasoline and oil prices.

More and more, capacity, sustainability and the continued availability of water and low-cost energy are concerns for policymakers that seek to succeed in economic development. The state's governor must begin planning today for the long-term needs of tomorrow, balancing a variety of public, business and environmental interests.

Throughout our lives, we have been taught that water and electricity should literally never mix. However, their connection to form energy is unmistakable, present in every Hoosier home and business. At the power plant, water is heated to make steam to spin a turbine to produce electricity that, in turn, is needed to pump water for many agricultural, industrial and municipal purposes.

When you think about it, the value of water is beyond real measure. We cannot make it – we can only hope that Mother Nature provides us with adequate rainfall to replenish both surface and groundwater. Indiana has experienced severe droughts in the 1940s, '60s and '80s. We will have another drought, and it may be sooner rather than later. (Only last year, Georgia experienced a severe drought and, with Atlanta just days away from running out of water, the governor prayed for rain on national TV. It rained, but prayer is no substitute for sound policy.)

Does Indiana have the water it needs for its six million-plus people and to sustain robust economic growth? The water company that services much of Central Indiana has publicly stated that within the next 10 years it may be challenged to supply enough water at peak demand. If a water shortage occurs, Hoosiers will feel it. Under the most severe scenarios, there would be staged restrictions and water rationing that will cause social and economic disruptions, including idled factories, job layoffs and limitations on personal uses (such as watering the lawn or washing the car).

A clear road map to assure an adequate, reliable and affordable supply of water is necessary. As governor, you will need to look decades ahead and develop a solid plan that survives well after

you leave office. You will need to craft policies with bipartisan support that balance a variety of public, business and environmental interests. Foresight and compromise should be your guides.

Indiana's economic growth will continue to put pressure on future energy demands. Forecasters say in just 10 years (the time it takes to bring a single power plant online), Indiana will need to generate additional electricity equivalent to one-fourth of current capacity if demand expectations are to be met. This growth in our state economy is a positive end, and we must embrace it and plan for it with significant investment in our electricity-generating infrastructure.

What is the wisest investment we can make? What policies should you pursue?

Due to complex environmental permits and construction schedules, it takes nearly a decade to build a large, operational, baseload power plant. We must plan carefully right now while recognizing that actions by Congress and the federal government concerning greenhouse gases and enhanced carbon technologies will shape our state efforts. With its vast coal resources, Indiana should engage federal officials regarding climate change regulation, not sit on the sidelines as others shape policy that could have a profound impact on our state's future.

For their part, Indiana utilities are implementing energy efficient programs, and you should support such efforts while leading a public awareness program. The state should encourage innovative regulation that rewards conservation and demand-side management programs which ultimately stabilize customer bills.

Conservation alone, however, is not the answer, but rather one element of a larger strategy. Current options to creating a greater supply include new clean-coal power plants, alternative energy sources (such as fuel cells) and renewables (such as wind, hydro and solar), as well as nuclear power.

In terms of our electricity source, more than 90 percent comes from the burning of coal. While Indiana has a 400-year supply of coal under its soil, there are growing concerns about the environmental consequences of burning this abundant fossil fuel. In response to existing federal mandates, Indiana utilities have invested more than \$3 billion in recent years on pollution control devices and are voluntarily making decisions to lower their carbon footprint. The cost of meeting environmental mandates will continue to grow and will impact the technology used to continue low-cost service. The state should be prepared to help foster and deploy new clean-coal technologies.

Similarly, we encourage you and the General Assembly to craft a reasonable renewable portfolio standard that supports utilities' investments in renewable state projects and makes that energy available for Hoosier businesses. Renewables are part of the equation, but have their limits. Today, renewable sources are more costly than current baseload/minimum needs (in the range of double to three or four times more costly than current generation) and are not available 100 percent of the time. Parts of Indiana are appropriate for wind-generated power, but others are not. Solar technology is still developing and Indiana does not have the same abundance of sun exposure as southern states. Indiana's relatively flat terrain offers more limited opportunities for

hydro than mountainous states. Additionally, more exotic alternatives are in the early stages of development and may not be commercially viable for many years.

Meanwhile, nuclear power makes sense as a non-polluting, safe and reliable energy source, but it is a pricey option that will take a long time to implement. That said, Indiana leaders should not be afraid to pursue appropriate nuclear power proposals.

Despite any debate and the limitations of the above options, the fact remains that water and electricity are essential to not just our personal survival, but the future of every Indiana business. Companies do not locate or create jobs where these commodities are unreliable or their prices unpredictable. Citizens do not want to reside in a state where usage restrictions become common or rates go skyward.

To ignore these issues and simply hope that there will be enough energy for a robust, growing economy would be a disservice to those who will have elected you to provide leadership for our state. We're counting on you to provide a coherent vision and long-term plans to secure adequate, reliable and affordable supplies of water and electricity.

Sincerely,

The 125 members of the Board of Directors of the Indiana Chamber of Commerce, representing 4,800-plus member companies employing 800,000 Hoosier workers.