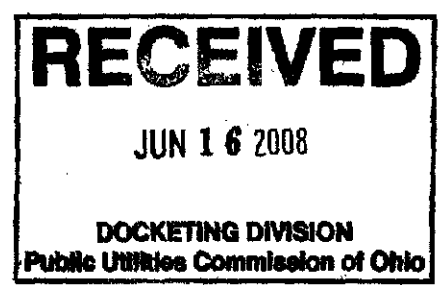


BEFORE
THE PUBLIC UTILITIES COMMISSION OHIO

IN THE MATTER OF THE APPLICATION OF)
VECTREN ENERGY DELIVERY OF OHIO, INC.)
FOR AUTHORITY TO AMEND ITS FILED TARIFFS)
TO INCREASE THE RATES AND CHARGES FOR)
GAS SERVICE AND RELATED MATTERS.)

CASE NO. 07-1080-GA-AIR, ET AL

FINANCIAL AUDIT REPORT



PREPARED BY:
EAGLE ENERGY, LLC

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Introduction.

On September 28, 2007, Vectren Energy Delivery of Ohio (VEDO or Applicant) filed an application to increase its natural gas rates pursuant to Section 4909.18 and 4929.05, Ohio Revised Code (O.R.C.). If granted, VEDO's request represents a gross revenue increase of \$27.3 million or 7.3 percent that would impact approximately 318,000 customers in eighty-seven communities and seventeen counties in West Central Ohio. VEDO acquired its natural gas assets from The Dayton Power and Light Company on or about November 1, 2000.

VEDO requested a test period of the twelve months ended May 31, 2008 and a date certain of August 31, 2007. The Public Utilities Commission of Ohio (Commission), pursuant to an Entry dated October 24, 2007, found that VEDO's proposed test year and date certain comply with Section 4909.15(C), O.R.C. and were approved.

VEDO's primary reasons for filing for rate relief are to:¹ (1) address the continuing ability to collect its authorized revenues; (2) establish a program and cost recovery for accelerated replacement of certain aged plant; (3) establish funding for system integrity and reliability programs; and, (4) generally, generate sufficient revenues to pay operating expenses, service debt and to provide an adequate rate of return.

The Commission, pursuant to its Entry dated December 5, 2007, believed that an independent firm should conduct an investigation of the facts and the exhibits presented by VEDO. The Commission sought proposals from independent firms to verify and attest to VEDO's financial information and to file a report representing its findings. Eagle Energy, LLC (Eagle) timely submitted its response to the Request For Proposal

¹ See VEDO's Application at pages 4 and 5.

(RFP) as described in the December 5, 2007 Entry and was approved as the auditor in this case.

Eagle's response to the Commission's RFP indicated that the audit would focus on four primary areas: (1) General areas; (2) Rate Base; (3) Operating Income; and, (4) Rates and tariffs². The investigation of the general area comprised the review of documents that were principally in the public domain and which support the rate request as well as the comparison of the findings of VEDO's most recent case with the instant case. The rate base audit focused on the used and useful nature of VEDO's assets at date certain, August 31, 2007, in rendering natural gas service to its customers. The operating income audit focused on the reasonableness and recurring nature of expenses as well as the appropriateness of the expense item for ratemaking purposes. Particular scrutiny was paid to the Applicant's budgeting process and, in particular, the reasonableness of that process in the forecast of expenses as well as sales. The final audit area was the rates and tariff section of VEDO's Application. While the cost of service and rate design elements of the Application were not included in the scope of Eagle's audit, the rate extension and bill analyses were reviewed. Eagle's audit findings are discussed in the following pages.

Eagle Energy, LLC.

Pursuant to the Commission's Entry dated January 16, 2008, Eagle Energy, LLC (Eagle) was selected to perform a financial audit of VEDO's Application for an increase in natural gas rates. Eagle's three principals lead the audit examination. The principals have a combined one hundred years of utility experience primarily in the areas of regulatory affairs and

² The audit work plan is illustrated in Appendix 3.

marketing, have appeared as expert witnesses before this Commission, served on various task forces with the Commission Staff and assisted the Commission Staff on numerous occasions by coordinating the rate case audits of Duke Energy.³

In addition to the lead personnel, Eagle assembled a team of independent consultants with additional breadth and depth of utility experience in the area of utility plant, marketing, operations, as well as regulation. On a consolidated basis, the Eagle audit team has a combined 250 years' of experience in gas, electric, telephone, and municipal utility and consulting matters.

Audit Report Summary.

VEDO's rate Application was filed pursuant to Sections 4909.18 and 4929.05, O.R.C. Section 4909.18 requires the following:

- (1) A report of used and useful property;
- (2) A complete operating statement;
- (3) A statement of income and expense;
- (4) A statement of financial condition summarizing assets, liabilities and net worth;
- (5) A proposed notice for newspaper publication; and,
- (6) Other information the Commission may require.

At the outset, Eagle believes that the Applicant has met its statutory burden as required by 4909.18 O.R.C. To come to this conclusion, Eagle conducted a thorough examination of the Application from January 21, 2008 through March 31, 2008 consistent with its response to RFP No. UO7-FA-4. The scope of Eagle's audit included general tasks, rate base

³ Duke Energy was at the time known as The Cincinnati Gas & Electric Company/CINergy.

tasks, operating income tasks and rates and tariffs tasks. Specifically, the following audit requirements were made: (i) Eagle became familiar with the Applicant's procedures and policies by reading and reviewing documents in the public domain; (ii) the Application was reviewed and checked for mathematical accuracy; (iii) various personnel of the Applicant were interviewed; and, (iv) follow-up and/or clarification documentation and information was obtained through a series of data requests.

The pages that follow contain the audit findings including exceptions that require additional debate and/or consideration before a final determination of the appropriate level of rate relief can be made. A summary of these findings is shown on Schedule 1, page 6. Eagle notes that in two areas of the Application anomalies have been observed that historically may have lead to a filing deficiency. First, the filed tariffs did not comply with the tariff annotations required by and set forth in 4901-7-01(B) and (B)(2) of the Commission's rules. The Applicant indicated that the filing format was discussed with and accepted by the Commission Staff. Eagle believes the process should have been formalized through the submittal of a waiver request. Secondly, the noticed rates were not consistently used in the presentation of the rate increase in the "E" section of the Standard Filing Requirements (SFRs). Eagle believes the noticed rates should have been applied to determine the exact amount of the requested increase in rates.

While not specifically part of the audit process, Eagle believes that the Applicant's alternative rate plan complies with 4929.05 O.R.C. Eagle did not perceive anything during the course of its audit review that would lead to the conclusion that the Applicant was not in compliance with Sections 4929.02 or 4905.35, O.R.C.

The primary purpose of Eagle's audit was to determine if the financial information is sufficient to allow the Commission to establish a level of rates that permit the Applicant an opportunity to earn the authorized rate of return. Eagle believes VEDO's financial data can be relied upon by the Commission in order to meet its regulatory obligation. The audit is not intended to provide a basis for expressing an opinion about the financial statements of the Applicant.

**CASE NO. 07-1080-GA-AIR
SUMMARY OF AUDIT FINDINGS**

SCHEDULE 1.

		<u>PAGE REFERENCE</u>
RATE BASE:		
Pig Launcher	\$171,975	19
Pig Receiver	171,975	19
Auger	12,816	19
Land	16,046	20
Material & Supplies	1,512,533	26
Case 571 Disallowances	<u>1,757,813</u>	27
Total Rate Base	<u>\$3,643,158</u>	
REVENUE:		
PFN Rates	\$ 1,526,087	63
PFN Rates - Forfeited Discounts	33,479	63
Reconnection Fees	115,270	64
Forfeited Discount	599,589	53
30-Year Weather Normalization	16,490	65
Operating Budget	(15,829)	51
Gas Cost (C-3.10)	<u>61,238,920 *</u>	42
Total	<u>\$ 63,514,006</u>	
EXPENSES:		
Rate Case Expense (C-8)	\$ 163,000 *	49
Gas Cost	61,238,920 *	42
Customer Count (C-3.3)	739,459	40
System Integrity (C-3.12)	(3,099,883)	44
Customer Related Expense (C-3.14)	(177,745)	44
Asset Charge (C-3.17)	(2,121,422)	47
Labor Adjustment (C-3.17)	(118,726)	47
PUCO/OCC Assessments (C-3-20)	(153,628)	50
Property Tax (C-3.22)	(133,292)	50
Other:		
Operating Budget	(1,650,577)	51
Depreciation	(34,786)	51
Taxes other than Income	57,128	51
AGA Dues	(4,056)	51
Injuries & Damages	(792,856)	52
Miscellaneous (930.2)	(574,972)	54
Office Supplies	(924,127)	53
Dayton Air Show	(105,000)	54
New Employees	<u>(144,532)</u>	44
Total	<u>\$ 52,162,905</u>	
Interest Charge of FIT	<u>\$ (747,205) *</u>	55
Gross Revenue Conversion Factor	<u>\$ (47,539)</u>	38
ALT. REG. PROGRAMS:		
Aging Workforce	\$ (127,068)	71
Regulator Maintenance	(94,967)	72
C&I Regulator Station Maintenance	(221,244)	72
Regulator Vault	(22,912)	72
Curb Box	(75,495)	72
Total	<u>\$ (541,686)</u>	
OTHER:		
Conservation Programs (C-3.15)	<u>\$ 2,984,557</u>	72
RECOMMENDATIONS:		
(1) Timely close out work orders.		21
(2) Service line ownership.		23
(3) Transmission map presentation.		24
(4) Revenue budget documentation.		32
(5) Consider refining and enhancing budget process.		33

* To be up-dated at conclusion of case.

GENERAL AREA SECTION

*{Primary tasks performed in this area include
mathematical accuracy of Application, review
of relevant documents and over-all understanding
of VEDO.}*

Description of Parent Operations and VEDO.

Vectren Corporation is an Indiana corporation incorporated under the laws of Indiana on June 10, 1999 as an energy holding company headquartered in Evansville, Indiana. Vectren's wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), serves as the intermediate holding company for three operating public utilities: (1) Indiana Gas Company (Vectren North); (2) Southern Indiana Gas and Electric Company (Vectren South); and, (3) the Ohio operations (VEDO).

The Ohio operations provide energy delivery services in west central Ohio. An organizational chart of the Ohio operations is shown on page 9. The Ohio operations are owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc., a wholly owned subsidiary of VUHI (53 percent ownership) and Indiana Gas (47 percent ownership). The Ohio operation does business as VEDO.

VUHI has additional assets that provide information technology and other services to the three utilities. VUHI's consolidated operations are collectively referred to as the Utility Group. Both Vectren and VUHI are holding companies as defined by the Energy Policy Act of 2005.

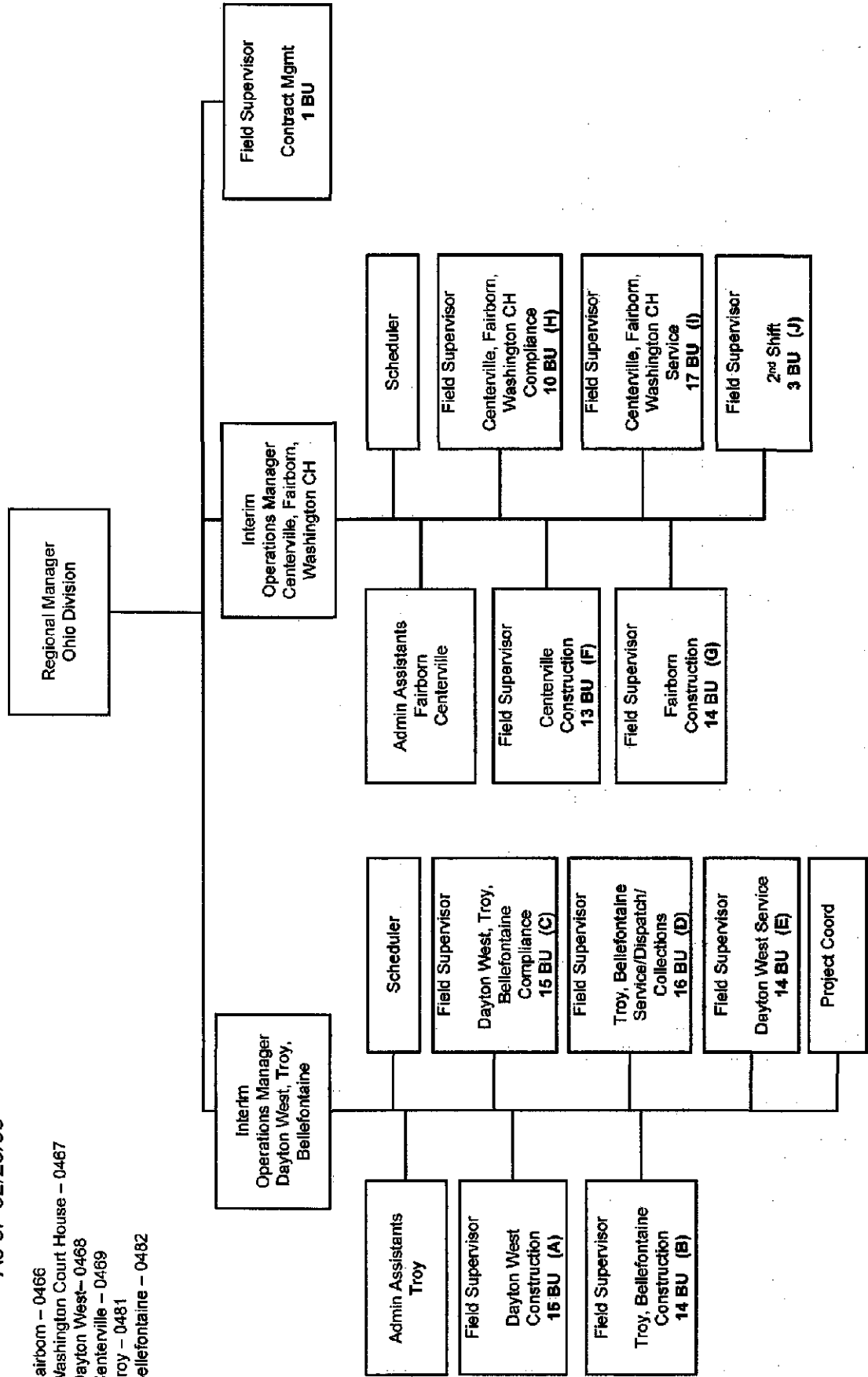
VUHI, through Vectren Enterprises, Inc., is also involved in non-utility activities in three primary business areas: (1) energy marketing and services; (2) coal mining; and, (3) energy infrastructure. Energy marketing and services markets and supplies natural gas and provides energy management services; coal mining mines and sells coal; and, energy infrastructure services provides underground construction and repair services and performance contracting and renewable energy services. Enterprises also has other businesses that invest in energy-



**Field Operations and Operations Support –
Ohio Division – Page 1**

As of 02/29/08

Fairborn – 0466
Washington Court House – 0467
Dayton West – 0468
Centerville – 0469
Troy – 0481
Bellefontaine – 0482



related opportunities and services, real estate and leveraged leases, among other investments. Enterprises supports the regulated utilities pursuant to related service contracts by providing natural gas supply services, coal, infrastructure services and other services.

VUHI's gas service area contains diversified manufacturing and agriculture-related businesses. The principal industries served include automotive assembly, parts and accessories, feed, flour and grain processing, metal castings, aluminum products, appliance manufacturing, polycarbonate resin and plastic products, gypsum products, electrical equipment, metal specialties, glass, steel finishing, pharmaceutical and nutritional products, gasoline and oil products, and coal mining. The largest Indiana communities served are Evansville, Bloomington, Terre Haute and suburban areas surrounding Indianapolis and Indiana counties near Louisville, Kentucky. The largest community served outside of Indiana is Dayton, Ohio where natural gas service is provided by VEDO. As of December 31, 2007, VUHI supplied natural gas service to approximately the following number of customers⁴:

Table 1: Number of Customers⁵.

Vectren North	568,000	56.9%
Vectren South	112,000	11.2
VEDO	<u>318,000</u>	<u>31.9</u>
Total	<u>998,000</u>	<u>100.0%</u>

The map on page 11 illustrates VUHI's serving area.

As reflected by customer survey results, the customer's perception of VEDO's ability to deliver quality natural gas service is very favorable.

⁴ The Company also provides electric service to approximately 141,000 customers in Vectren South.

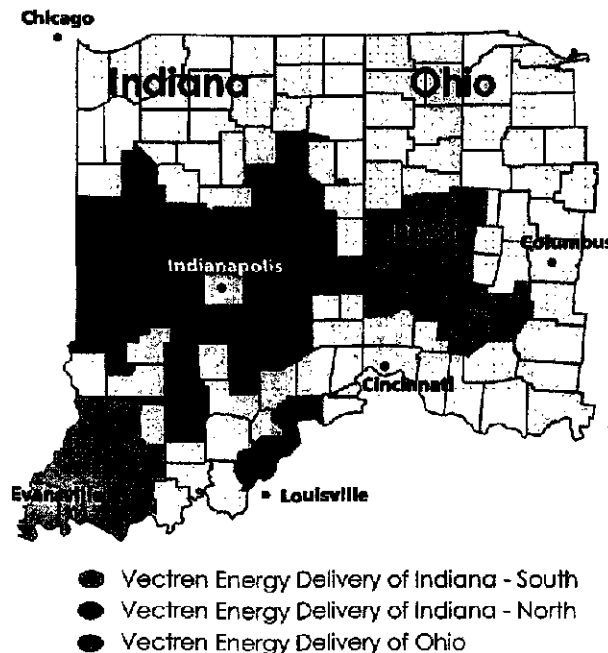
⁵ Source SEC Form 10-K filed on February 20, 2008.

Table 2: Customer Survey Results⁶.

Year	2005	2006	2007
% Satisfied/Very Satisfied	93.75	94.25	95.67

Eagle also reviewed selective data from Mr. Moul's comparable company list as well as other Ohio gas utilities. The data is derived from 2006 Annual Reports to shareholders' or the annual report data filed with the Commission for the year 2006. The data is not intended to be used to draw any particular conclusion since it is difficult to know how data is exactly reported with any degree of certainty. This data is provided in comparative form on Schedule 2, page 12.

Energy Delivery Service Territory



⁶ Source Data Request 100.

SCHEDULE 2.

Moul Comparable Compan	CUSTOMERS	EMPLOYEES	NET PLANT	O&M	DEPRECIATION	CUSTOMERS/EMPLOYEE	NET PLANT/CUSTOMER	O&M/CUSTOMER	DEPRECIATION/NET PLANT
AGL	1,500,000		\$ 3,436,000,000	\$ 473,000,000	\$ 138,000,000		\$ 2,291	\$ 315	4.0%
ATMOS	3,181,199	4,632	3,629,156,000	433,418,000	185,596,000	687	1,141	136	5.1%
LACEDE	631,466		763,827,000	149,378,000	30,904,000		1,210	237	4.0%
NJ RESOURCES	471,705	516		121,384,000	34,753,000	914	-	257	0.0%
NW NATURAL	636,584	1,211	1,389,405,000	114,560,000	64,435,000	526	2,183	180	4.6%
PIEDMONT	911,310	2,051	2,076,460,000	252,490,000	89,700,000	444	2,279	277	4.3%
SLIG	330,049		920,005,000	71,763,000	26,249,000		2,787	217	2.9%
WGL	1,086,779	2,103	2,040,392,571	234,251,875	82,836,500	517	1,877	216	4.1%
AVERAGE	1,093,637	2,103	2,036,463,653	231,280,609	81,559,188	598	1,722	211	4.3%
VEDO	313,658	186	249,585,192	327,829,010	14,850,200	1,686	796	1,045	5.9%
AGA	63,304,000	111,000		\$ 40,154,000,000		570		634	
Ohio Gas Companies									
Columbia	1,423,164	948	\$ 1,146,876,526	\$ 1,203,939,578	\$ 29,051,566	1,501	\$ 806	\$ 846	2.5%
East Ohio	1,220,869	1,420	1,180,500,049	981,844,903	27,454,867	860	967	804	2.3%
Duke	421,168	1,859	1,026,154,938	32,811,186	27,473,092	227	2,436	78	2.7%
AVERAGE	1,021,734	1,409	\$ 1,117,843,838	\$ 739,531,889	\$ 27,993,175	725	\$ 1,094	\$ 724	2.5%
VEDO	313,658	186	249,585,192	327,829,010	14,850,200	1,686	796	1,045	5.9%
Payroll									
AGA (Industry)	\$ 7,210,299,000	111,000	\$ 64,958	Average Residential Bill @ 64.63 CCF:					
Columbia	61,262,973	948	64,623			\$		17.88	
East Ohio	90,802,814	1,420	63,946					24.70	
Duke	119,824,560	1,859	64,456					27.53	
AVERAGE	\$ 1,870,547,337	28,807	\$ 64,934			\$		23.37	
VEDO	\$ 22,843,685	186	\$ 122,816			\$		19.13	

❖ Audit Process.

Eagle started its audit approach by becoming familiar with VEDO primarily from public documents including the following:

1. Standard Filing Requirements and Application.
2. Applicant's expert testimony.
3. Staff Report of Investigation in Case No. 04-571-GA-AIR.
4. Management Audit of Gas Purchasing and Policies in Case No. 04-220-GA-GCR.
5. Long Term Forecast Report in Case No. 07-120-GA-FOR.
6. Vectren's Annual report to Shareholders.
7. Vectren's Form 10K.
8. The Commission's Opinion and Order in Case No. 04-571-GA-AIR.

In addition, other relevant documents such as: Board of Director minutes and internal and external accounting reports were reviewed.

Eagle also interviewed the majority of VEDO's witnesses who provide expert testimony in support of the Application. Over one hundred data requests were submitted to clarify or seek additional information. Eagle also selected various units of property and inspected those facilities.

The audit Report includes three Appendices: (1) data requests used to support various audit findings; (2) pictures and description of the assets inspected during the field inspection audit; and, (3) a graphical illustration of the audit plan.

❖ Comparison with Most Recent Case.

VEDO's most recent rate case⁷ and the first since it acquired the gas facilities of The Dayton Power and Light Company was finalized with the

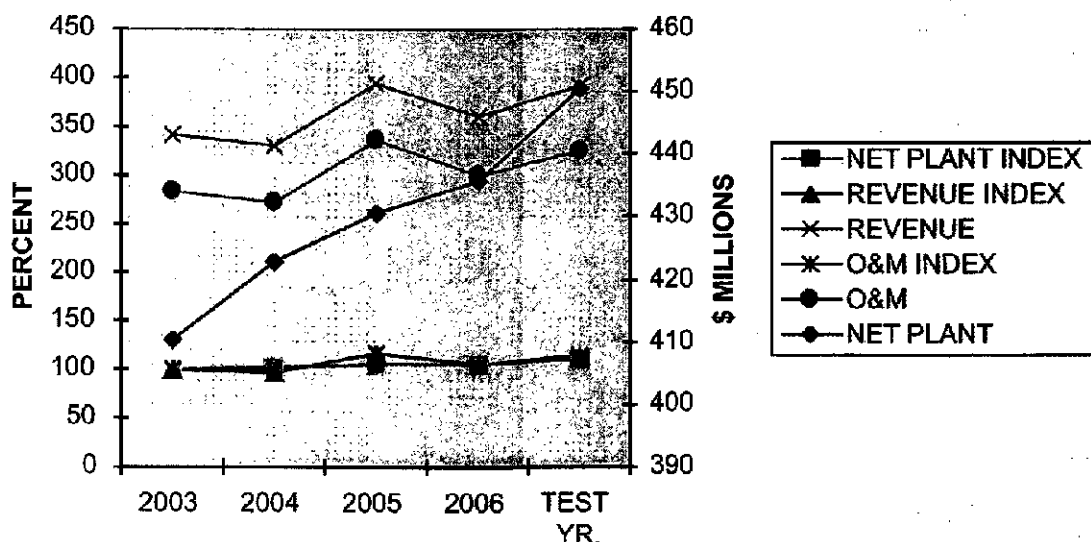
⁷ See Case No. 04-571-GA-AIR, et al.

Commission's Opinion and Order dated April 13, 2005. The Commission's Order established new rates based on a test period of the twelve months ended December 31, 2004 and a date certain of March 31, 2004. Several parties in that proceeding signed and filed a Stipulation on February 4, 2005.

Schedule 3 on page 15 compares, in summary form, significant aspects of the previous case with the current case.

Since the year 2003, VEDO's net plant has experienced an average increase of approximately two percent (2%) annually. Revenues and operation and maintenance expenses have averaged an increase of approximately three percent (3%) over the same timeframe. These increases are graphically shown on Illustration 1.

Illustration 1: Year 2003 - 2007 Financial Comparisons.



Schedule 3. Rate Case Comparison.

	<u>Case 04-571</u>	<u>Case 07-1080</u>		<u>Difference</u>
<u>RATE BASE</u>				
Net Plant	\$214.9	\$249.6	\$34.7	16.1%
Working Capital	40.3	1.6	(38.7)	-96.0%
Other	(9.1)	(17.7)	(8.6)	94.5%
Total Rate base	<u>\$246.1</u>	<u>\$233.5</u>	<u>\$(12.6)</u>	-5.1%
<u>OPERATING INCOME</u>				
Base revenue	\$104.9	\$118.1	\$13.2	12.6%
Other	6.3	3.0	(3.3)	-52.4%
Total Revenue	<u>\$111.2</u>	<u>\$121.1</u>	<u>\$9.9</u>	8.9%
O&M	\$55.5	\$74.8	\$19.3	34.8%
Depreciation	12.5	14.9	2.4	19.2%
Taxes	30.9	26.5	(4.4)	-14.2%
Total Expenses	<u>\$98.9</u>	<u>\$116.2</u>	<u>\$17.3</u>	17.5%
NOI	<u>\$12.3</u>	<u>\$4.9</u>	<u>\$(7.4)</u>	-60.2%

Since the date certain in the Applicant's previous case, the major additions to plant in service include an eight mile transmission line (line A-80) at a cost of \$15.6 million, an automated meter reading (AMR) communication system of \$5.7 million, CHOICE billing system software included in intangible plant at \$1.3 million and \$42 million in additions to distribution mains and services. Working capital has been reduced due to the elimination of off-peak storage and the fact that the Applicant has not requested a cash working capital allowance.

❖ Stipulation of Case No. 04-571-GA-AIR.

The Commission's approved the February 4, 2005 Stipulation which contained five (5) commitments relative to VEDO. The status of each commitment was reviewed with the Applicant.

1. *Schedule a TWG Meeting.* A meeting of the Transportation Working Group (TWG) was held on April 10, 2007. A follow-up meeting was held on May 31, 2007.
2. *Implement a Conservation Program.* VEDO has worked collaboratively with representatives from the Commission, the Ohio Office of Consumers' Counsel (OCC) and Mr. Dave Rinebolt. Program design and budgets were discussed and a portfolio of those programs is included in the current case. In addition, VEDO has worked with a collaborative to conduct a low-income weatherization program. The program known as "TEEM" is administered by the Dayton Community Action Agency.
3. *Revise the Bill Format.* The revised bill format was implemented on December 8, 2007.
4. *Revamp the Call Center for Staff Access.* In August 2005, VEDO support staff and customer service resources worked with the Commission's IT support group to successfully provide the Commission Staff with direct access to VEDO's NiceLog call recording system. The Commission Staff now has immediate retrieval capability for any completed customer call within their jurisdiction for purposes of customer inquiries, complaints or compliance audits.
5. *Implement large print bill format.* VEDO implemented a large print bill format on June 4, 2007.

It appears VEDO has met its commitments as outlined in the February 4 Stipulation.

RATE BASE SECTION

(General tasks in this area include the identification of used and useful assets of \$249.5 million at date certain and other rate base items .)

❖ Description of Work Order Process.

In order to track property additions and retirements, VEDO utilizes Intelliplant, a software system that tracks property additions and retirements and provides the primary record of property owned. Projects are initiated by a project manager who is responsible for reporting "as built" project details as well as completion and in-service dates. Plant Accounting then uses this information to close the construction work orders into Account 106, *Completed Construction Not Classified*. Subsequently, these property units are classified into the appropriate plant accounts.

Related retirement work is accomplished through separate retirement work orders. Labor of removal is recorded in Reserve Work In Progress (RWIP). When a project is completed, the estimated removal costs are moved to Account 108 as a reduction in the Reserve for Depreciation ending balance. All property units removed from service are retired out of Account 101, Plant In Service and are not included in Account 106 balances.

The project manager and/or a plant accounting work order analyst reconcile material and labor charges. Any charges or credits not associated with the specific project are transferred from the work orders. When more than one property unit is involved, the material charges are used to allocate costs in the unitization process.

Blanket work orders are used only for gas services and gas meters. VEDO utilizes installation and removal work orders for each asset. Meters are capitalized when purchased and meter installation costs are capitalized when meters are installed. House regulators are not capitalized until they are installed.

Eagle believes VEDO's work order process allows for a reasonable determination of asset costs. The plant values can be relied upon to properly determine the used and useful nature and costs of assets used in rendering natural gas service to customers for ratemaking purposes.

❖ Field Audit.

After reviewing VEDO's property unit listing, a variety of assets were selected for a field inspection. A request of VEDO was made to provide a list of the assets or units of property in various accounts and locations showing the original cost of each item. The selection criteria for audit field inspection included a requirement that the sample be representative of VEDO's service area. From the list of assets, Eagle determined the specific assets to be checked in the field. The final list is shown in the attached Appendix 2, page 1.

Of the assets selected, Eagle identified a few items that deserve comment. First, the asset referred to as a "Pig Receiver" and a "Pig Launcher" were placed in service during August 2007 at an original cost of \$171,975.03 for each and are currently recorded in Account 106, *Completed Construction Not Classified*. The original cost of these assets may be revised after the work order is finally reconciled and unitized. While the receiver and launcher were placed in service during August 2007, it is unclear as to whether the assets were used as of date certain. VEDO stated that these assets would be used once every three to seven years in order to periodically test the integrity of the gas transmission line.

Account 696 includes an auger that was placed in service in February 2004. The original cost of the asset is recorded as \$12,815.84, however, upon visual inspection Eagle believes that this cost may be

excessive for such equipment. Eagle suggests that the cost of this asset may not be properly recorded.

Eagle inspected a parcel of land located in Centerville which VEDO purchased in January 2005 at a cost of \$16,046.01. This parcel was purchased to facilitate the relocation of a vintage gas regulator installation which is located nearby. VEDO intends to relocate the gas regulator station to this parcel of land (see diagram in Appendix 2, page 14). At date certain, the gas regulator station had not been re-located on this parcel of land.

Eagle's inspection of VEDO's Troy and Versailles regulator stations showed a disturbing lack of adequate safety protection for this equipment. Each of these sites is located in close proximity to foot and vehicle traffic and could easily be damaged.

Appendix 2 to this Report provides a photograph and description of the randomly selected assets that were inspected in the field.

❖ Plant in Service.

The rate base SFR documents were checked for mathematical accuracy. Eagle found no substantial reporting errors.

As of date certain, \$26,507,118 or approximately six percent (6%) of Plant in Service was classified in Account 106, *Completed Construction Not Classified*. There were 243 work orders included in 106 with in service dates ranging from 2004 to 2007. Eighteen work orders indicated the asset was placed in-service during 2005 and another twenty-eight work orders indicated the asset was placed in-service during 2006. This seems to indicate that closing out work orders is not a high priority for

VEDO. ***Eagle recommends that VEDO give additional effort to timely closing out work orders.***

Table 3: Account 106 Activity⁸.

<u>Year</u>	<u>Number of Work Orders</u>	<u>Amount</u>
2004	1	\$ 139
2005	18	349,726
2006	28	775,912
2007	194	5,111,495
2007	2	20,269,846
Total	<u>243</u>	<u>\$ 26,507,118</u>

The two largest work orders in 2007 that have not been closed out reflect the 100,000 AMR devices that are in service on an experimental basis and the new transmission line (line A-80).

❖ Todhunter Facility.

VEDO's propane facilities are comprised of three propane air-plants referred to as Yankee, Bellbrook and Derby. The Todhunter facility provides propane storage capability. These plants provide peak shaving and emergency supply capability for VEDO's gas supply requirements. The two largest plants, Yankee and Bellbrook, have limited on-site storage capability and their operation relies primarily on propane being pumped from the Todhunter cavern through a pipeline owned by VEDO. Yankee is connected to the Todhunter cavern by an 18-mile pipeline and Bellbrook is connected to Yankee by an 8-mile pipeline. The Derby facility runs entirely off an on-site tank storage of propane that must be refilled via truck deliveries.

⁸ Work order detail can be found in Data Request 69.

During December 2006, the Todhunter cavern was sold to TE Products Pipeline Company (TEPPCO). VEDO negotiated very favorable propane storage terms and conditions without cost to the customer. VEDO should be commended for being creative in this regard. As discussed below, the Todhunter cavern plant cost has been appropriately retired from rate base.

❖ Service Lines.

VEDO is proposing to change its service line ownership and maintenance policy in conjunction with its cast iron/bare steel main replacement program. At the present time the customer is responsible for owning and maintaining the service lateral or service line from the curb box to the meter. As VEDO replaces its bare steel and cast iron mains, the intent is for the ownership and future maintenance of those related service lines to be the responsibility of VEDO. However, in those areas where either the main has not been replaced or where the main replacement program does not extend, the customer will continue to be responsible for its ownership and maintenance. It is Eagle's understanding that the following scenarios could exist under VEDO's service line proposal:

1. Cast iron/bare steel main replacement areas:
 - a. VEDO owns service line as it is replaced;
 - b. Customer maintains ownership where service line is not replaced (plastic service lines);
 - c. VEDO provides maintenance of the service line at cost.
2. Other non-replacement areas:
 - a. VEDO will maintain service line at a cost but customer maintains ownership;
 - b. Customer retains ownership.
3. New construction areas.
 - a. VEDO owns service lines as new service lines are installed.

In all cases, there is not a rate differential based on service line ownership causing a rate subsidy for those customers who own their service line by those customers who do not own their service line.

Eagle believes this policy will lead to customer confusion and VEDO should consider ownership and maintenance of all service lines at least for residential and small commercial customers.

❖ Specific SFR Schedules.

As a general observation, the presentation of the numbers in the "B" section have been truncated to the nearest thousand dollar amount which occasionally leads to some rounding issues. These differences, however, are insignificant.

Schedule B-1. Eagle reconciled the rate base summary and found the schedule to be mathematically accurate.

Schedule B-2. Eagle reconciled the plant-in-service summary with the detailed B schedules and found the presentation to be accurate. As previously described, VEDO capitalizes meters as they are received. VEDO stated that the capitalized meter count is 351,248 compared to it 318,000 customers.

Schedule B-2.1. Eagle found the presentation to be accurate (there is a schedule title error on page 5 of 5) as there are no allocation factors involved in this case.

During the course of the audit, Eagle found a discrepancy between the transmission plant assets recorded on SFR B-2.1 and the transmission plant map. The only plant in service transmission asset on the B schedules is the eight-mile replacement line between Todhunter and Centerville, identified as line A-80. However, the transmission map includes some 226.5 miles of plant in service as described by Mr. Berry. In response to Eagle's request to reconcile the discrepancy between the "B" schedules, the map and the

testimony of Mr. Berry,⁹ VEDO stated that the transmission mileage is reflective of the pipeline classification as defined by the Department of Transportation. VEDO has maintained the asset classification as used by DPL, the previous owner, for book purposes.

While there is no impact on rate base, Eagle believes the map and plant presentation for the "B" schedules should be consistent.

The transmission map is shown on page 25.

Schedule B-2.3. Eagle traced plant retirements and additions presented on this schedule and found the schedule to be accurate. Eagle did inquire about the disposition of assets that were disallowed in VEDO's previous case believing those assets should have been retired from plant in service. VEDO's response indicated that those assets disallowed in the last case are currently included and remain as part of VEDO's plant in service¹⁰. Eagle would also point out that with the current status of Account 106, there may be other assets that should have been retired but remain on VEDO's books.

The major addition to intangible plant, page 1 of 5, is the customer-billing system, referred to as the CHOICE software system. The retirements indicated in production plant, page 2 of 5, are the result of the sale of Todhunter.

The majority of additions to the transmission plant, page 3 of 5, are related to the installation of line A-80. Those dollars still reside in Account 106. The \$5,706,000 addition in general plant represents the new AMR devices.

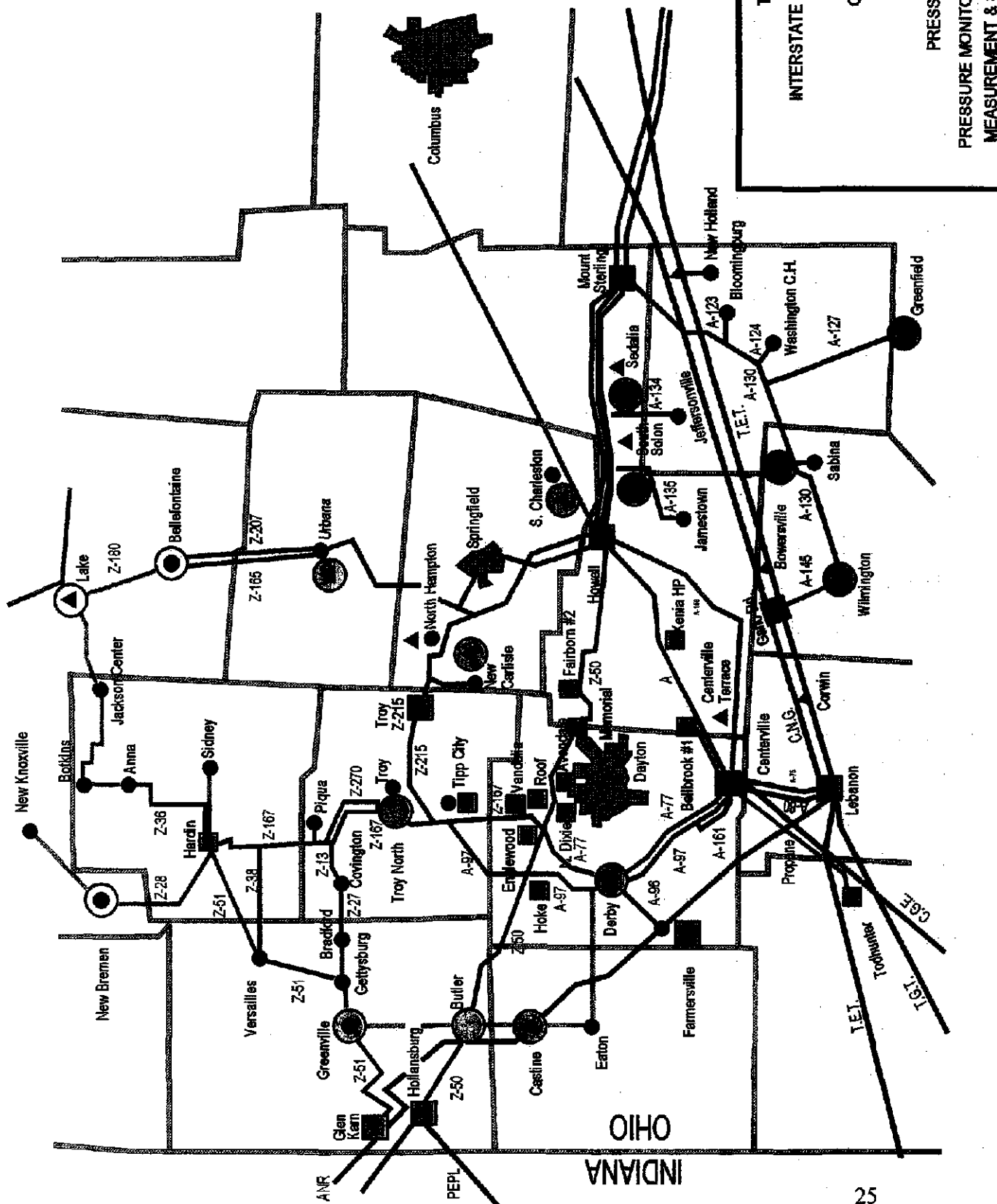
Schedule B-3. Eagle believes the presentation on this schedule is accurate.

Schedule B-3.2. VEDO is not seeking new depreciation rates in the instant case. However, VEDO installed a new transmission line (A-80) since their last case and Eagle believes the Applicant is seeking approval of a depreciation rate for A-80 in this case. For presentation purposes, VEDO used the same depreciation rate as the distribution mains rate of 1.77% that has been approved by the Commission.

⁹ Mr. Berry suggests on page 6 of his testimony that the Company has 5,466 miles of distribution and transmission pipeline; on page 11, he indicates there are 226.5 miles of transmission and 5,183 miles of distribution pipeline; and, on page 15, he indicates there are 283 miles of transmission and 23 miles of propane transmission pipeline.

¹⁰ See Data Request 106.

VECTREN ENERGY DELIVERY GAS PIPELINE SYSTEM



Eagle reviewed other companies' depreciation rates and only found East Ohio as a natural gas company with both distribution and transmission facilities in service presented in SFR format. East Ohio's depreciation rate for distribution mains is 1.71% and 2.00% for transmission mains.

If a new transmission depreciation rate is found reasonable, then depreciation expense should reflect the approved rate and the reclassification of transmission plant, as discussed above, should reflect the appropriate depreciation rate coming out of this case.

Schedule B-3.3. Eagle believes the presentation on this schedule is accurate.

Schedule B-5. VEDO did not include an allowance for cash in its determination of working capital and normally this would negate any working capital allowance. However, VEDO presented both a 13-month average balance and a date certain balance of material and supplies. Neither allowance, as presented by VEDO, reflects items withdrawn for construction purposes. The appropriate working capital allowance for material and supplies which reflects construction withdraws is as follows¹¹:

Schedule 4. M&S
Determination.

Determination of M&S Excluding Construction Expenditures

Withdraws:

	<u>Production</u>	<u>Transmission</u>	<u>Distribution</u>	<u>Other</u>	<u>Total</u>
O&M	\$1,540	\$8,677	\$230,439		\$240,656
Other				68,025	68,025
	<u>\$1,540</u>	<u>\$8,677</u>	<u>\$230,439</u>	<u>\$68,025</u>	<u>\$308,681</u>
New Construction	\$-	\$638	\$878,822		\$879,460
Other					
Construction	-	7,624	522,368		529,992
	<u>\$-</u>	<u>\$8,262</u>	<u>\$1,401,190</u>	<u>\$-</u>	<u>\$1,409,452</u>
Total	<u>\$1,540</u>	<u>\$16,939</u>	<u>\$1,631,629</u>	<u>\$68,025</u>	<u>\$1,718,133</u>
% Other					<u>18.0%</u>
% Construction					<u>82.0%</u>

¹¹ Source: Supplemental (C)(14)(c).

**Schedule 4
(con't.).**

<i>From B-5:</i>	<u>13-month Avg.</u>	<u>Date Certain</u>
M&S (Company)	<u>\$683,662</u>	<u>\$921,795</u>
Allowance for Other	<u>\$123,059</u>	<u>\$165,923</u>
Difference	<u>(\$560,603)</u>	<u>(\$755,872)</u>

Schedule B-6. The information presented on this schedule is accurate.

❖ Rate Base Findings.

There are several assets that need to be reviewed which include:

Used and Useful Plant:

- Pig Launcher and Pig Receiver.
- Land.
- Working Capital - M&S.
- Disallowed Plant in Prior Case¹².
- Depreciation Rate for Transmission Plant

In addition, VEDO should review the following policies:

- Account 106 - timeliness of closing work orders..
- Service Lines - ownership.
- Reporting and classification of transmission and distribution lines.

¹² The Staff in Case No. 04-571-GA-AIR eliminated \$18,452 from account 303, \$1,529,349 from accounts 691.1, 691.2, 694 and 697 and \$210,012 as non-recorded plant retirements.

Table 4. Rate Base Findings:

	Company	Finding	Eagle
Pig Launcher	\$171,975	(\$171,975)	\$ -
Pig Receiver	171,975	(171,975)	-
Auger	12,816	(12,816)	-
Land	16,046	(16,046)	-
Material and Supplies	683,662	(660,603)	123,059
Case 571 Disallowances	<u>1,757,813</u>	<u>(1,757,813)</u>	<u>-</u>
Total	<u>\$2,633,255</u>	<u>(\$2,510,196)</u>	<u>\$123,059</u>

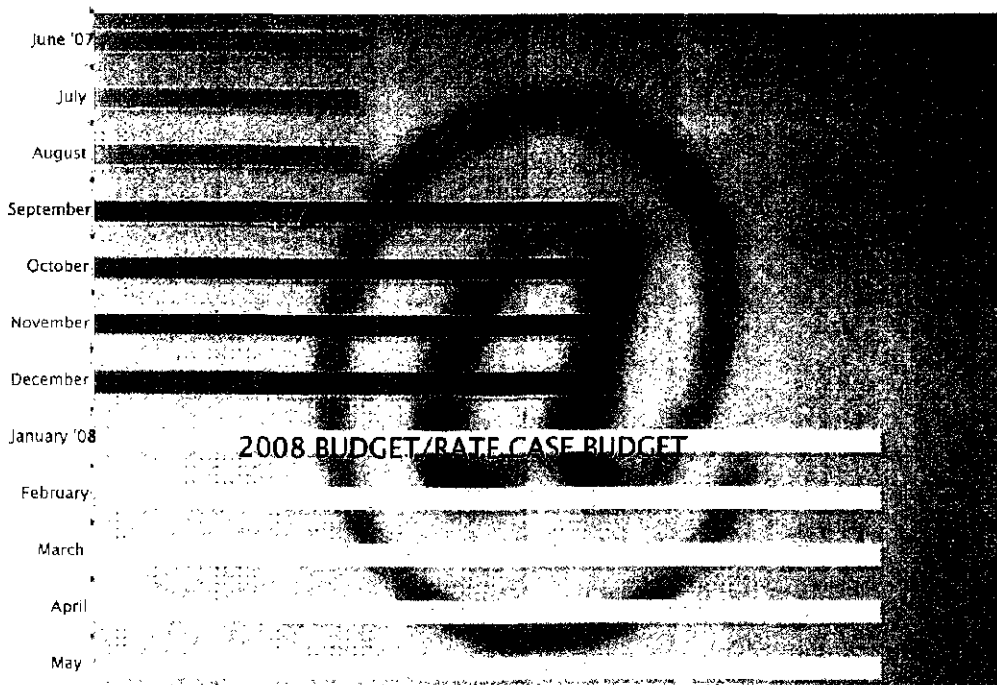
OPERATING INCOME SECTION

*{The primary tasks in this area include
the budgeting process, the determination
of reasonable and recurring items of expense
and examine adjusted NOI of \$21.9 million.}*

❖ Description of Budgeting Process.

VEDO's test year reflects three financial reporting periods: (1) the months of June through August 2007 reflect actual expenses; (2) the months of September through December 2007 are derived from VEDO's fiscal 2007 budget; and, (3) the months of January through May 2008 are based on the calendar year 2008 budget. To further complicate matters, VEDO developed a 2008 rate case budget for rate case presentation, which is discussed later, since the official budget was not available in time to be utilized in VEDO's filed Application. VUHI's Board approved the official budget for the year 2008 on November 1, 2007.

**Illustration 2: Test Year 12 Months Ended May 2008 Reflects
Three Financial Reporting Periods.**



VEDO employed Oracle's database software to develop its 2007 budget. Each VEDO cost center is responsible for the completion of its budget. At a high level, the Oracle software project-based accounting

structure consists of project, task and then sub-task. While the principle purpose of this budgeting process is budgeting operations and maintenance costs, budgets for projects that affect cost of sales such as the cost of purchased gas, are required to be budgeted separately.

In addition to the cost centers, which drive operation and maintenance and capital allocation, other line items on the income statement are budgeted uniquely such as, interest expense, revenues and depreciation. These items were budgeted based on VEDO's chart of accounts and loaded into the Oracle General Ledger.

Items budgeted by each cost center include: labor, fringe benefits, materials, vehicle use, employee expenses, office supplies, capital projects and severance costs. Items centrally budgeted include: depreciation, advertising, employee testing, interest expense, insurance, buildings, fleet costs, and technical equipment.

In 2008, the Applicant began using a new and enhanced budgeting system called the Hyperion Planning and Budgeting Tool. According to the Applicant, future budgeting will be more efficient and at a greater level of detail. There are two main sections of Hyperion called Planning and Workspace. Planning is the database where budget data are entered and workspace is the reporting tool that allows users to view various budget reports. The Hyperion tool allows more definition in the budget process; e.g., users will not only be allowed to budget overtime but, if appropriate, double-time may be budgeted at that level of detail.

While there seems to be adequate budget documentation for capital and operating expenses, similar documentation does not appear to exist for the revenue or margin budgeting process. However, VEDO did provide an explanation for the projected revenue in this case. For residential and

general service customers, the key inputs are the average use per customer (AUPC) and the number of customers. The 2007 budget reflects an AUPC adjusted for customer count and sales volumes based on the 2003 to 2006 average growth rate and further adjusted for anticipated conservation. Utilizing exponential smoothing models that included trend analysis and seasonal variables the 2007 customer count was derived. The 2008 budget, on the other hand, reflects AUPC based on a price elasticity model developed by the American Gas Association (AGA). Customer count was based on an historical growth rate.

Large customer margins are based on a 12-month rolling average for each specific customer. The 2007 budget used the period of June 2005 through May 2006 while the 2008 budget used the period of May 2006 through April 2007. The Industrial Sales group adjusts the projected data for known customer load changes and customer additions or deletions. The adjusted load data is then re-submitted into the margin budget analysis.

Eagle believes the budgeting tools VEDO has in place are reasonable for projecting costs and revenues to be used in the ratemaking process in this case. **Eagle would recommend that additional documentation concerning the revenue budget be developed and included as part of the budgeting documentation.**

❖ Comparison of Actual versus Budget.

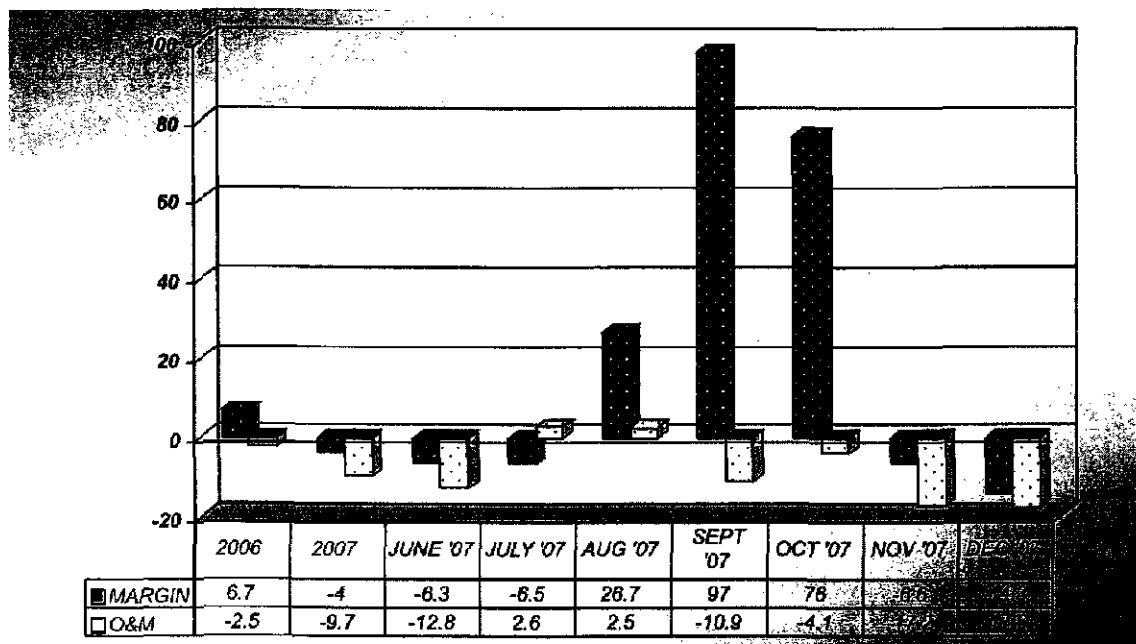
To test the reasonableness of VEDO's budget, Eagle selected several data points and compared actual results to budget for two matrices, revenue margin and operating and maintenance expense. The findings are summarized in Table 5.

Table 5: Variance Summary.

Matrix	Range	Average
Margin	(14.3%) - 97.0%	18.7%
O&M	(17.6%) - 2.6%	(7.7%)

The variances indicated above are summarized on Schedule 5, page 34.

Illustration 3: Actual vs. Budget Comparison.



Eagle suggests that VEDO consider refining and enhancing its budgeting processes. Generally, budget amounts are less than actual results, however, the budget tool could be used with greater accuracy for management reporting. Eagle did not observe any impropriety of the budget exclusively for ratemaking purposes in its Application.

**Schedule 5. Actual vs.
Budget Variances.**

<u>PERIOD/MATRIX</u>		<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>	<u>PERCENT</u>
Year 2006	-Margin	\$114.6	\$122.3	\$7.7	6.7%
	-O&M	\$55.2	\$53.8	\$(1.4)	-2.5%
Year 2007	-Margin	\$128.8	\$123.7	\$(5.1)	-4.0%
	-O&M	\$63.0	\$56.9	\$(6.1)	-9.7%
June 2007	-Margin	\$6.3	\$5.9	\$(0.4)	-6.3%
	-O&M	\$4.7	\$4.1	\$(0.6)	-12.8%
July 2007	-Margin	\$6.2	\$5.8	\$(0.4)	-6.5%
	-O&M	\$3.9	\$4.0	\$0.1	2.6%
August 2007	-Margin	\$4.5	\$5.7	\$1.2	26.7%
	-O&M	\$4.0	\$4.1	\$0.1	2.5%
September 2007	-Margin	\$3.3	\$6.5	\$3.2	97.0%
	-O&M	\$4.6	\$4.1	\$(0.5)	-10.9%
October 2007	-Margin	\$7.5	\$13.2	\$5.7	76.0%
	-O&M	\$4.9	\$4.7	\$(0.2)	-4.1%
November 2007	-Margin	\$25.8	\$24.1	\$(1.7)	-6.6%
	-O&M	\$5.8	\$4.8	\$(1.0)	-17.2%
December 2007	-Margin	\$43.4	\$37.2	\$(6.2)	-14.3%
	-O&M	\$7.4	\$6.1	\$(1.3)	-17.6%
Test Year	-Margin	\$97.0	\$98.4	\$1.4	1.4%
	-O&M	\$35.3	\$31.9	\$(3.4)	-9.6%
All Periods	-Margin	\$340.4	\$344.4	\$4.0	1.2%
	-O&M	\$153.5	\$142.6	\$(10.9)	-7.1%

❖ **Comparison of Historical Expenses versus Test Year.**

Eagle reviewed operating expenses from the year 2001 through 2007 and compared those trends to the test year. For the actual period of 2001 through 2006, the average annual increase in expense was 6.9%. For the period of 2004 through 2007, the average annual increase in expense was

5.7%. The test year compared to the year 2007 reflects an average increase of 5.3%. The support for these comparisons is shown on Schedule 6, page 36, with the monthly test year variances graphically shown on Illustration 4 on page 37. Overall, the test year expenses appear to be reasonable.

❖ Specific SFR Schedules.

Schedule C-2. The schedule is accurate as presented with the exception of the proposed increase in column B is under-stated as more fully explained in the Rates and Tariff Section of this Report.

Schedule C-2-1. The total revenue on line 13, page 1 of 3, does not agree with the work paper reference WPC-2.1a. The revenue on this schedule is over-stated by \$61.

Schedules detailing test year adjustments, C-3.1 through C3-23, are more fully discussed below.

Schedule C-4. The pro-forma revenue does not agree with the proposed increase in revenue.

Schedule C-4.1. The schedule is accurate as presented. However, income tax includes items that are generally removed from the calculation; e.g., goodwill. The interest charge is over-stated as will be discussed later in this Report.

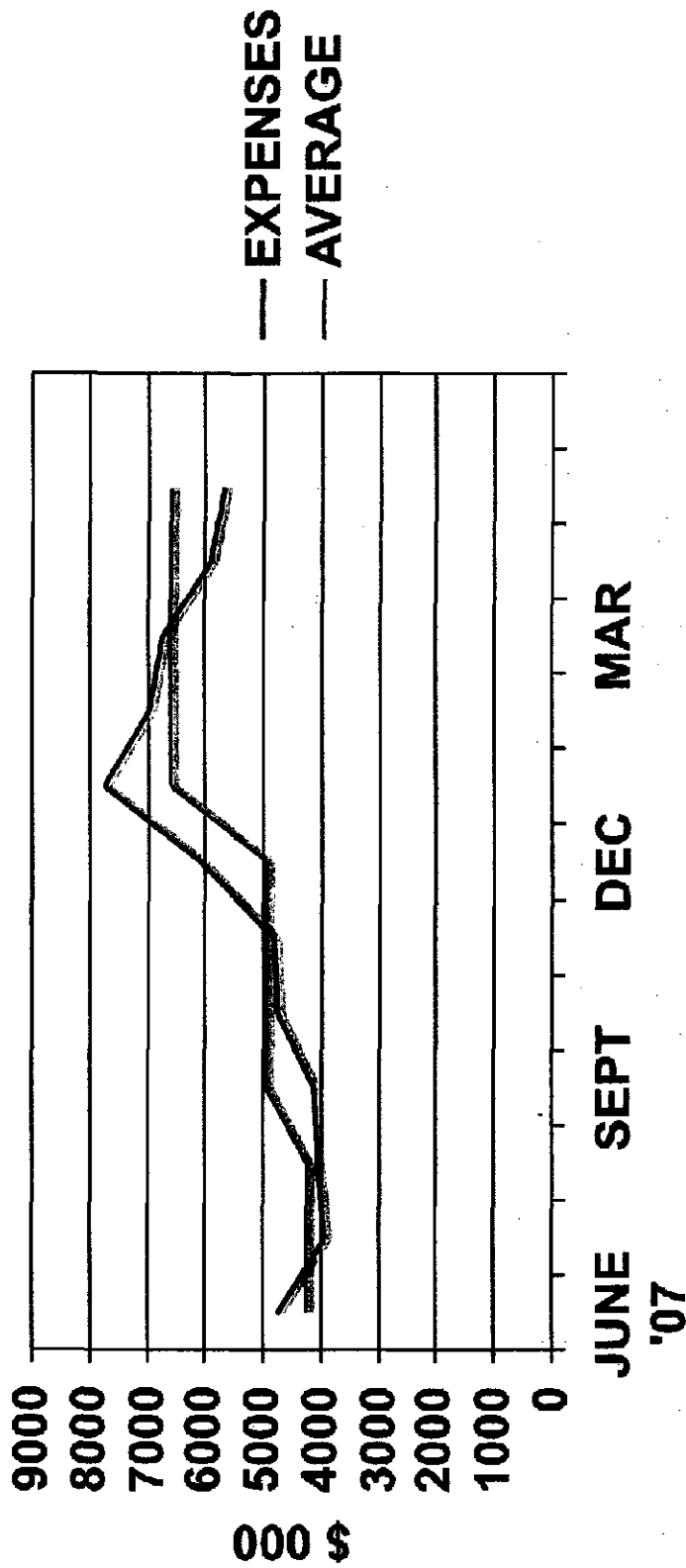
Schedule C-7. The schedule is accurate as presented.

Schedule C-8. VEDO did not include the audit expense in its determination of its expenses associated with the presentation of the rate case. The rate case expense should be increased by \$163,000. Normally this item is provided at the conclusion of the case after all expenses are known. Also, prior year rate case expenses are generally not re-adjusted and amortized. The adjustment is reflected on Schedule C-3.18.

CASE NO. 07-1080-GA-AIR
COMPARISON OF ACTUAL EXPENSES WITH TEST YEAR EXPENSES
YEARS 2001 - 2007

[illegible]

VECTREN ENERGY DELIVERY OF OHIO
 TOTAL TEST YEAR EXPENSES (EXCLUDES PURCHASED GAS)
 CASE NO. 07-1080-GA-AIR
 TWELVE MONTHS ENDED MAY 31, 2008



Schedule C-9. Eagle could not reconcile the adjustment of \$211,723. The labor adjustment is further discussed below. The test year payroll costs were developed based on the date certain number of employees adjusted for known labor rate changes. Eagle is not satisfied with VEDO's labor cost determination. Specifically, the budget period determination and the allocation of expense from the holding company are of a concern. These items should be up-dated during the course of the hearing in this proceeding.

Schedule C-9.1. The presentation of the labor costs by bargaining unit is accurate. However, the payroll tax amount expensed on line 28, page 1 of 8, is incorrect. The correct tax amount is \$829,687 as reflected on work paper WPC-3.17a. The error on this schedule has no impact on labor costs or related adjustments.

Schedule C-10. The determination of the gross revenue conversion factor incorrectly includes OCC maintenance tax and Commission maintenance which are allocated amounts based on revenue. The appropriate calculation is shown on Schedule 7.

Schedule 7. GRCF.

Operating Revenues		100.000%
Statutory Ohio Excise Rate	4.750%	
Percent Exempt Revenue	<u>0.610%</u>	
Remove Ohio Excise from Exempt Revenue	<u>-0.029%</u>	
Effective Ohio Excise Rate		<u>4.721%</u>
Income before Federal Income Tax		95.279%
Federal Income Tax (Line 13x 35%)		<u>33.348%</u>
Operating Income Percentage		<u>61.931%</u>
Gross Revenue Conversion Factor (100% / 61.931%)		<u>1.6146915</u>

Schedule C-11. The presentation of the balance sheet data is accurate.

Schedule C-12.1. The presentation of gas revenues is accurate.

Schedule C-12.3. The presentation of gas sales data is accurate.

Schedule C-13. VEDO did not calculate a reserve for uncollectibles since there are various rate riders in place that negate uncollectible amounts. The riders track uncollectibles in the presentation of the "E" schedules.

❖ Adjustments to Annualize Revenue.

VEDO has proposed twenty-three (23) adjustments to its operating results. Eleven of these adjustments are to test year revenues and each revenue adjustment is discussed below. Adjustments C-3.1, C-3.2, C-3.7, C-3.8, and C-3.9 are required adjustments to restate revenues to reflect a current or normal operating level for VEDO. Adjustments C-3.3, C-3.4, C-3.5, and C-3.6 are adjustments proposed by VEDO that reflect changes in the load forecast to one degree or another.

Eagle reviewed the work papers related to these revenue adjustments and offers the following comments regarding the revenue adjustments.

Revenue Adjustments.

Adjustment C-3.1 **Contract Storage Revenue** reflects a change in how the revenue associated with VEDO's pipeline storage contracts is handled. The Commission, in Case no. 05-220-GA-GCR, authorized VEDO, effective May 1, 2007, to include this revenue as a part of its gas cost recovery mechanism. As a result, these revenues were appropriately eliminated from service revenue.

Adjustment C-3.2 **Reconciliation Rider** is necessary to reflect the zeroing out of the rider contained in Sheet No. 43 which was

established in Case No. 05-1444-GA-UNC. The impact of this adjustment is to remove the estimated test year rider recovery and reset the level to zero for future calculations.

Adjustment C-3.3 **Customer Count** adjustment reflects the estimated reduction in customers due to the use of actual data for 2007 and the expected reduction in customers due to the increase in base rates. VEDO's most recent load forecast reflected lower customer usage due to price elasticity.¹³ Generally, price elasticity adjustments have not been recognized for ratemaking purposes. The effect of the adjustment is to reduce base revenue by \$739,459.

Adjustment C-3.4 **Normalized Revenue** includes the revenue impact of VEDO's 10-year weather normalization versus the 30-year weather normalization used to develop VEDO's budget. This adjustment also contains a reduction in revenue to reflect the estimated reduction in use by customers due to the proposed increase in base rates. Adjustment C-3.4, is a proposed adjustment reflecting the revenue impact of VEDO's proposed ten-year weather normalization as opposed to the standard 30-year normalization¹⁴ and an adjustment of VEDO's average use per customer, which had increased as a result of the reduction in the number of customers in C-3.3.

VEDO has utilized the traditional thirty-year weather normal period for its forecast, its budget, its reconciliation rider as approved in Case No. 05-1444-GA-UNC, as well as its purchase gas requirement. The testimony offered for the change in the Applicant's normalization basis from 30 to 10 years is based on a statistical

¹³ See Data Request 125.

¹⁴ VEDO's most recent load forecast adopted by the Commission is based on a 30-year weather normal degree-day. See Case No. 07-120-GA-FOR, page 25.

model rather than meteorological data¹⁵. The model purports to show that the 30-year moving average Heating Degree Day standard based on the National Oceanographic and Atmospheric Administration (NOAA) is less efficient and is in fact biased for utility projections as compared to the 10-year moving average adopted by the Applicant in this case. It is noteworthy that both the U.S. Department of Commerce as well as the AGA use a 30-year moving average for determining weather norms is not as efficient. If this proposed adjustment is adopted, VEDO's budgeting procedure, gas purchasing decisions, and weather normalization rider should also be based on the same 10-year average. This adjustment has reduced the test year volumes by 1,798,030 MCF and reduced revenue by \$211,900¹⁶. Eagle believes a load forecast proceeding before the Commission is the most appropriate forum to implement a change from a 30-year forecast to a 10-year weather normalized forecast norm.

Adjustment C-3.5 **Uncollectible Rider Revenue** reflects the annualization of both the Percentage of Income Payment Plan (PIPP) and Uncollectible Expense Rider (UER) revenues. This adjustment also reflects the impact of the change in sales volumes on the PIPP and UER revenues. Additionally, the adjustment eliminates revenue recovery for PIPP and the related charge to expense for uncollectible relating to PIPP.

Adjustment C-3.6 **Customer Migration** reflects the revenue impact resulting from the expected movement of customers to VEDO's new Rate 360 from their current gas rates. If accepted, this adjustment should be up-dated to reflect the final increase in rates authorized in

¹⁵ See the testimony of Dr. Gorman.

¹⁶ See the testimony of Ms. M. Susan Hardwick.

this case. There is further discussion on the rate impact included in the Rates and Tariffs section of the Report.

Adjustment C-3.7 **Large Customer Charges** shows the impact of the loss of several large customers due to the customers' closed operations and expiring contracts, including the contract with schools. There is further discussion on the rate impact in the Rates and Tariff section of this Report.

Adjustment C-3.8 **Miscellaneous Revenues** reflects the elimination of unbilled revenue for June through August 2007, a change in late payment fees for forfeited discounts based on a three year average, and the elimination of gross receipt tax on customer deposits for main extension projects.

Adjustment C-3.9 **SB 287 Tax Adjustment** reflects the impact of the sales volume adjustments on the Mof-driven SB287 Excise Tax. Additionally, this adjustment synchronizes the SB287 revenues with their respective expenses.

Adjustment C-3.10 **Gas Cost** reflects the annualization of gas cost recovery revenue and gas cost based on the October 2007 expected gas cost of \$0.92356 per ccf and the synchronizing of that revenue with the associated expense. Traditionally the Commission Staff has utilized the expected gas cost (EGC) rate times test year volumes and normally requests an up-date to the calculation after a final determination of new rates is made by the Commission. Using the April 2008 EGC of \$1.14709 per CCF increases the test year gas cost expense by \$61,238,920. The calculation of the up-dated gas cost is shown on Schedule 8 on page 43.

Schedule 8. Gas Cost Up-date.

Rate Code	Sales Service Volumes (Ccf)		
	Non-Federal	Federal	Total
310	182,007,826		182,007,826
315			-
320	86,720,695	1,004,674	87,725,369
325			-
330	3,516,064	690,399	4,206,463
330/360			-
341	23,210		23,210
345			-
345/360			-
Total	<u>272,267,795</u>	<u>1,695,073</u>	273,962,868
As Filed Gas Cost Rate			<u>\$0.92356</u>
As Filed Gas Cost Revenue			<u>\$253,021,146</u>
Updated EGC Rate (April 2008)			<u>\$1.14709</u>
Updated Gas Cost Revenue			<u>\$314,260,066</u>
Adjustment to Gas Cost			<u>\$61,238,920</u>

Adjustment C-3.11 **Gross Receipt Tax Adjustment** reflects the annualization of the Ohio Gross Receipts Tax and expense at a 4.8767% and the synchronization of the appropriate revenue and expense due to revenue adjustments C-3.1 through C-3.10. Eagle believes that the rate indicated is incorrect and should be 4.721 percent. This rate reflects the statutory rate of 4.75 percent less the Federal exempt revenue of 0.029 percent.

Other Operating Income Adjustments:

Adjustment for System Integrity, Schedule C-3.12. This adjustment reflects VEDO's intent to increase various maintenance programs as well as hire several new employees. The annual test year expense proposed by VEDO is \$3,993,980. Eagle investigated the adjustment and found that several maintenance programs had not been implemented and some of the employee positions had not been filled. Schedule 9 on page 45 summarizes the audit findings and has the impact of reducing the proposed test year expense by \$3,126,808.

Adjustment for Risers, Schedule C-3.13. VEDO has incurred or expects to incur \$1,830,000 associated with natural gas risers as a result of the Commission's investigation in Case No. 07-294-GA-AIR. VEDO has amortized the expense over three years.

Adjustment for Customer Support Programs, Schedule C-3.14. This adjustment reflects an increase in economic development activity as well as customer survey information. Several positions have not been filled resulting in a decrease in test year expenses of \$177,745. See Schedule 10 on page 46 for new employment level details.

Adjustment for Conservation Program Schedule C-3.15. VEDO has proposed to increase its annual conservation initiatives to \$4 million from the current level of \$1.1 million. The value of the adjustment is \$2,984,557.

Adjustment for Shared Services, Schedule C-3.16. This adjustment reflects an adjustment for human resources and IT support services provided to VEDO. The adjustment includes the addition of six employees (FTEs). During the audit period, six FTEs were hired by VEDO.

**CASE NO. 07-1080-GA-AIR
SYSTEM INTEGRITY ADJUSTMENT
SCHEDULE C-3.12**

SCHEDULE 9.

<u>Description</u>	<u>Annual Cost</u>	<u>Adjusted</u>
Maintenance Programs:		
Regulator Stations	\$ 304,104	\$ 6,401
C&I Maintenance	589,986	
Regulator Vault	68,736	21,979
Curb Box	251,653	4,946
Total	<u>\$ 1,214,479</u>	
ROW	<u>\$ 1,114,341</u>	
Aging Workforce:		
Retirements	\$ (475,333)	
New Hires	785,256	
Co-ops	2,336	
Total	<u>\$ 312,259</u>	
Other Maintenance:		
After Hours	\$ 15,000	
Supervisor	83,070	
Gas Service Standards	632,686	632,686
Aerial Patrols	14,117	
Total	<u>\$ 744,873</u>	
Propane Air	<u>\$ 21,875</u>	
Training	<u>\$ 162,512</u>	
Employee Additions:		
Trainers (2)	\$ 188,760	94,380
Training Supervisor	20,764	
Hygiene Consultant	15,000	15,000
S&T Consultant	21,985	21,985
Contract Adm.	27,788	
Buyer	12,870	
Contract Analyst	6,552	
Compliance Engineer	96,720	96,720
Encroachment Engineer	16,474	
Supervisor Engineer	14,407	
Project Manager	2,321	
Total	<u>\$ 423,641</u>	
Total	<u>\$ 3,993,980</u>	<u>\$ 894,097</u>
Test Year Difference		<u>\$ (3,099,883)</u>

**CASE NO. 07-1080-GA-AIR
NEW EMPLOYEE ADDITIONS**

SCHEDULE 10.

	<u>Number</u>	<u>Annual Cost</u>
<u>Adjustment C-3.12, System Integrity.</u>		
Hired:		
Technical Gas Trainers	1	\$ 94,380
Engineer-Compliance	1	96,720
Safety/Hygiene Consultant	1	15,000
Safety/Training Consultant	1	21,985
Total	4	\$ 228,085
Vacant:		
Technical Gas Trainers	1	\$ 94,380
Contracts Analyst	1	6,552
Gas Training Supervisor	1	20,764
Contract Adm.	2	27,788
Buyer	1	12,870
Engineer-Encroachment	1	16,474
Engineer-Applications	1	14,407
Project Manager	1	2,321
Total	9	\$ 195,556
Total C-3.12	13	\$ 423,641
<u>Adjustment C-3.14, Customer Related Expense.</u>		
Hired:		
Econ. Development Rep.	1	\$ 20,530
Econ. Development Manager	1	34,944
Customer Research Analyst	1	27,955
Dir. Of Conservation	1	57,221
Communications Specialist	1	11,232
Total	5	\$ 151,882
Vacant:		
Customer Research Consultant	1	\$ 43,961
Field Sales Rep.	1	28,080
Supervisor of Measurement Ser.	1	105,704
Total	3	\$ 177,745
Total C-3.14	8	\$ 329,627
<u>Adjustment C-3.16, Shared Services.</u>		
Hired:		
Recruiting Specialist	1	\$ 8,415
Training Specialist	1	8,425
HR Financial Analyst	1	12,120
Retirement Plan Adm.	1	15,435
HR Generalist	1	15,726
Employee Relations Director	1	34,741
Total	5	\$ 94,862
Vacant	-	-
Total C-3.16	6	\$ 94,862
<u>Other.</u>		
Hired:		
Engineer - Co-op	1	\$ 1,168
After Hours Supervisor	1	83,070
Conservation Analyst	1	27,955
Service Desk Specialist	1	11,457
Corporate Records Clerk	1	8,424
Total	5	\$ 132,074
Vacant:		
Conservation Manager	1	\$ 117,000
Engineer - Co-op	1	1,168
Productivity Analysts	2	26,364
Apprentices	14	785,256
Total	18	\$ 929,788
Total Other	23	\$ 1,061,862
<u>Total.</u>		
Hired	20	\$ 506,903
Vacant	30	1,303,089
Total	50	\$ 1,909,992

In addition, the asset charge presented by VEDO is annualized to reflect the 2008 budget level. The 2008 budget level, however, reflects an increase in assets of slightly more than \$40 million and a cost of capital of 12.35 percent from a previous level of 11.69 percent. Eagle believes the 2007 budget, which reflects actual assets adjusted for a service addition, should be used for cost determination. In addition, the rate of return should be adjusted for the final cost of capital found reasonable in this case. Annualizing the asset charge by using the 2007 asset base and incorporating a cost of capital of 11.69 percent, reduces test year expense by \$2,121,422. Schedule 11 on page 48 shows the determination of this amount.

Adjustment for Labor, Schedule C-3.17. This adjustment reflects the annualization of labor costs net of an adjustment of incentive compensation. During the audit work, Eagle could not reconcile WPC-3.17a. Eagle asked VEDO to reconcile the test year amounts and they provided the loading rates for 2007 and 2008. Eagle used the 2008 loading rates and derived an annualized labor adjustment of \$92,997. The incentive compensation adjustment was also used by Eagle resulting in a negative pro forma labor adjustment of (\$69,886) compared to VEDO's adjustment of \$48,840. Schedule 12 on page 49 reflects this adjustment.

Eagle suggests that VEDO up-date the labor cost determination based on current labor rates and the most recent FTE complement. The resulting expense should then be compared to the actual test year labor expense of \$10,676,481. The adjusted amount should be adjusted for the current labor loading rates and the amounts reflected on Schedules C-3.12 and C-3.17 should be excluded from the revised labor expenses.

**CASE NO.07-1080-GA-AIR
ASSET CHARGE TO VEDO**

SCHEDULE 11.

DETERMINATION OF ASSET CHARGE

As Proposed by the Company:

	<u>Monthly</u>	<u>Period</u>
Actual Period: June - August	\$ 733,968	\$ 2,201,904
2007 Budget Period: September - December	\$ 704,921	2,819,684
2008 Budget Period: January - May	\$ 895,632	4,478,160
Test Year		\$ 9,499,748
Annualized	\$ 895,632	\$ 10,747,584
Adjustment		\$ 1,247,836

Determination of Monthly Charge:

	<u>Actual Period</u>	<u>2007 Budget</u>	<u>2008 Budget</u>	
Plant	\$ 138,949,185	\$ 138,949,185	\$ 134,270,443	
Service Additions	7,099,536	(7,099,536)	42,975,421	
Depreciation	9,421,925	(9,421,925)	41,518,000	
CWIP	-	-	26,920,000	
Plant Balance	<u>\$ 136,626,796</u>	<u>\$ 122,427,724</u>	<u>\$ 162,647,864</u>	
VEDO Allocation	<u>0.21</u>	<u>0.21</u>	<u>0.2102</u>	
VEDO Plant Balance	<u>\$ 28,691,627</u>	<u>\$ 25,709,822</u>	<u>\$ 34,188,581</u>	
Cost of Capital: (June - December)	<u>Ratio</u>	<u>Cost</u>	<u>Wtg. Cost</u>	<u>Gross</u>
Long-term Debt	0.519	7.40	3.84	3.84
Common Equity	0.481	10.60	5.10	7.85
	<u>1.000</u>		<u>8.94</u>	<u>11.69</u>
Cost of Capital: (January - May)	<u>Ratio</u>	<u>Cost</u>	<u>Wtg. Cost</u>	<u>Gross</u>
Long-term Debt	0.519	7.40	3.84	3.84
Common Equity	0.481	11.50	5.53	8.51
	<u>1.000</u>		<u>9.37</u>	<u>12.35</u>
Annual Amounts:	<u>Actual Period</u>	<u>2007 Budget</u>	<u>2008 Budget</u>	
Plant	\$ 3,354,051	\$ 3,005,478	\$ 4,222,290	
Depreciation	5,200,449	5,200,449	6,241,077	
Property Tax	253,121	253,121	284,216	
Total	<u>\$ 8,807,621</u>	<u>\$ 8,459,048</u>	<u>\$ 10,747,583</u>	

Eagle Recommendation:

Plant Balance	\$ 25,709,822		
Long-term Debt	0.475	6.41	3.04
Common Equity(1)	0.525	11.50	6.04
	<u>1.000</u>		<u>9.08</u>
Annual Amount:			
Plant	\$ 3,172,592		
Depreciation	5,200,449		
Property Tax	253,121		
Total	\$ 8,626,162	Adjustment =	\$ (2,121,422)

(1) Common Equity should be adjusted after final determination of Cost of equity is made.

Schedule 12. Labor Adjustment.

	<u>DIRECT LABOR</u>	<u>FRINGE LOAD</u> 0.325	<u>RETIREMENT</u> 0.136	<u>TAXES</u> 0.075	<u>TOTAL</u>
<i>Test Year</i>					
VVC	\$2,068,094	\$672,131	\$281,261	\$155,107	\$3,176,592
VUHI	4,700,575	1,527,687	639,278	352,543	7,220,083
VEDO	3,907,812	1,270,039	531,462	293,086	6,002,399
Total	<u>\$10,676,481</u>	<u>\$3,469,856</u>	<u>\$1,452,001</u>	<u>\$800,736</u>	<u>\$16,399,075</u>
<i>Pro Forma</i>					
VVC	\$1,713,491	\$556,885	\$233,035	\$128,512	\$2,631,922
VUHI	4,220,917	1,371,798	574,045	316,569	6,483,329
VEDO	4,802,618	1,560,851	653,156	360,196	7,376,821
Total	<u>\$10,737,026</u>	<u>\$3,489,533</u>	<u>\$1,460,236</u>	<u>\$805,277</u>	<u>\$16,492,072</u>
Adjustment	<u>\$60,545</u>	<u>\$19,677</u>	<u>\$8,234</u>	<u>\$4,541</u>	<u>\$92,997</u>
Incentive Compensation					<u>(162,883)</u>
					<u>\$(69,886)</u>
Source:	WPC-3.17				

Adjustment for Rate Case Expense, Schedule C-3.18. VEDO is attempting to re-adjust its prior and current rate case expenses over a three-year period. The current case expense should also be adjusted by the audit fee amount of \$163,000.

Schedule 13. Rate Case Expense.

Rate Case Expense (Company)	\$1,078,000
Audit Fee	<u>163,000</u>
Total	<u>\$1,241,000</u>
Amortized over Three Years	<u>\$ 413,667</u>
Less: Test Year Expense	<u>\$ 202,447</u>
Adjustment	<u>\$ 211,220</u>
Company Pro Forma Adjustment	<u>\$ 283,416</u>
Eagle Adjustment to Pro Forma	<u>(\$ 72,196)</u>

Adjustment for Interest on Customer deposits, Schedule C-3.19. This adjustment reflects interest on customer deposits of 3%. Customer deposits are deducted from rate base on Schedule B-5.

Adjustment for PUCO and OCC Assessments. Adjustment C-3.20 proposed by VEDO attempts to capture the impact of the PUCO and OCC tax assessments as a result of a reduction in revenues shown on Schedules C-3.1 through C-3.11. Eagle has provided an alternative to this adjustment. Both assessments are allocated to the utility based on revenue and not calculated internally as a result of a specific tax rate as suggested by VEDO. The most recent PUCO assessment is \$476,788 and the OCC assessment is \$121,945 for a total assessment of \$598,733. The test year assessment included by VEDO is \$682,457. By comparing the test year expense with the latest known assessment, results in a reduction to expense of \$83,724.

Adjustment for Annualized Depreciation, Schedule C-3.21. This adjustment reflects current depreciation rates applied to date certain plant in service. This adjustment may be further adjusted for potential plant disallowances, a revised depreciation rate for transmission plant and the difference between the rate case budget and the actual corporate budget, as discussed below.

Adjustment for Property Tax, Schedule C-3.22. VEDO adjusted its test year property tax to recognize an assessment for the Z-51 pipeline. However, VEDO failed to adjust property taxes for date certain property and the latest known rates. VEDO's test year property tax as shown on Schedule C-2.1 is \$5,336,075 as adjusted for the Z-51 pipeline. By using date certain plant and the most

current valuation rate, the annualized property tax calculates to be \$5,202,883 or a reduction in test year property tax of \$133,192¹⁷.

Adjustment for Federal Income Taxes Schedule C-3.23. This adjustment calculates the Federal tax impact of the twenty-two adjustments discussed above. A further adjustment should be made if any of the adjustments are revised.

Other Miscellaneous Items.

During its investigation, Eagle discovered several adjustments that either are normally considered for ratemaking purposes or are being disclosed as a result of its audit responsibilities. A description of those items follows.

1. 2008 Operating Budget. As discussed earlier, VEDO developed a separate rate case budget due to the timing and approval of the official budget. Eagle found that the O&M expenses were \$1,650,577 higher as presented in the rate case budget compared to the official budget for the period January through May 2008. In addition, the same time period comparison indicates that: (i) revenue is \$15,829 lower in the official budget; (ii) depreciation is \$34,786 lower; and, (iii) taxes other than income tax are \$57,128 higher. The basis for the differences is shown on Schedule 14 on page 52.
2. Association Dues. The 2008 membership dues for the AGA and OGA amount to \$316,862 and OGA \$17,747, respectively. AGA notified VEDO that 4% of its dues is related to lobbying activities. The OGA stated that they incurred no lobbying expense. The VEDO allocated share of AGA lobbying activities is \$4,056¹⁸.

¹⁷ See Data Request 79.

¹⁸ See Data Request 84.

Schedule 14. Operating Budget.

CASE NO. 07-1080-GA-AIR COMPARISON OF RATE CASE "BUDGET" VS CORPORATE BUDGET JANUARY - MAY 2008

	January	February	March	April	May	Total
<u>Revenue</u>						
Rate Case Budget	\$ 72,867,188	\$ 62,112,426	\$ 48,265,776	\$ 30,375,642	\$ 15,494,765	\$ 229,115,797
Corporate Budget	72,850,715	62,112,299	48,265,849	30,375,779	15,495,326	229,099,968
Difference	\$ 16,473	\$ 127	\$ (73)	\$ (137)	\$ (561)	\$ 15,829
<u>O&M Expense</u>						
Rate Case Budget	\$ 59,924,589	\$ 50,793,064	\$ 40,271,561	\$ 26,203,676	\$ 14,654,717	\$ 191,847,607
Corporate Budget	59,716,355	50,463,358	40,047,796	25,779,323	14,190,198	190,197,030
Difference	\$ 208,234	\$ 329,706	\$ 223,765	\$ 424,353	\$ 464,519	\$ 1,650,577
<u>Depreciation</u>						
Rate Case Budget	\$ 1,253,167	\$ 1,253,167	\$ 1,253,167	\$ 1,253,167	\$ 1,253,167	\$ 6,265,835
Corporate Budget	1,242,283	1,244,246	1,246,210	1,248,173	1,250,137	6,231,049
Difference	\$ 10,884	\$ 8,921	\$ 6,957	\$ 4,994	\$ 3,030	\$ 34,786
<u>Taxes Other than Income</u>						
Rate Case Budget	\$ 4,859,335	\$ 4,195,856	\$ 3,335,801	\$ 2,270,540	\$ 1,364,927	\$ 16,026,459
Corporate Budget	4,852,749	4,204,839	3,356,060	2,286,021	1,383,918	16,083,587
Difference	\$ 6,586	\$ (8,983)	\$ (20,259)	\$ (15,481)	\$ (18,991)	\$ (57,128)

Source: Supplemental (C)(8) and Data Requests 38 and 39.

- Injuries and Damages. The test year reflects injuries and damages expense of \$846,911. The actual expenditures over the last three years are shown in Table 6.

Table 6: Injuries and Damages for the Years 2005 – 2007.

2005	\$51,158
2006	\$53,689
2007	\$57,317

The historical three-year average is \$54,055 or \$792,856 less than the test year amount.

3. Forfeited Discount Revenue. VEDO did not adjust forfeited discount revenue (late payment) that will increase as a result of the rate increase. Eagle believes forfeited discount revenue will increase by approximately \$447,309 as a result of the proposed rate increase of \$27.7 million. The derivation is shown on Schedule 15.

Schedule 15. Forfeited Discounts.

Current Late Payment Revenue (Schedule E-4.1, page 32) =

\$2,523,554

Actual 12-months Ended March 2008:

Late Payment Revenue \$ 2,711,180

Sales Revenue \$364,769,404

Ratio 0.0074%

Proposed Revenue (Schedule E-4.1) \$401,467,926

Late Payment Revenue @ 0.0074% \$ 2,970,863

Adjustment \$ 447,309

4. Office Supplies. There appears to be an anomalous budget amount in the month of December 2007 which shows an amount of \$1,133,008¹⁹ attributable to office supplies. The average budgeted

¹⁹ See Data Request 55.

period monthly expense is \$208,881 or a test year difference of \$924,127.

5. Dayton Air Show Contributions. During the test period, two contributions were made as the main sponsor of the Dayton Air Show. June 2007 reflects an amount of \$50,000 and February 2008 reflects an amount of \$55,000²⁰.
6. Interest Expense. VEDO based its interest expense on its own debt component of 3.36%. The Consolidated debt component is 3.07% as reflected on Schedule D-1. By using the Consolidated debt component, the annual interest expense is reduced from \$7,846,708 to \$7,169,463. As further explained in the rate of return discussion below, the cost of capital changed as a result of the maturity of a long-term security in December 2007. As a result, the Consolidated debt component decreased from 3.07% to 3.04%. This reduction in the cost of debt would further reduce the interest expense from \$7,169,463 to \$7,099,403. Schedule 16 on page 55 captures the difference.
7. Association Dues. Account 930.2, Miscellaneous General Expenses includes an amount of \$574,972 that appears to be primarily related to association and Chamber of Commerce dues.

²⁰ See Data Request 111.

Schedule 16. Interest Charge.

Interest Charge as Proposed (1):

Rate Base	<u>\$233,532,983</u>
Debt Component	<u>3.36</u>
Interest Expense	<u>\$7,846,708</u>

Use of Consolidated Debt:

Debt Component (Schedule D)	<u>3.07</u>
Interest Expense	<u>\$7,169,463</u>
Difference	<u>\$677,246</u>

Use of Consolidated Debt less Matured Long-term Security:

Debt Component	<u>3.04</u>
Interest Expense	<u>\$7,099,403</u>
Difference	<u>\$70,060</u>

(1) Source WPC-4.

8. New Employees. During the test year, VEDO expected to hire fifty new employees. Through March 31, thirty full time equivalent (FTE) positions have not been filled. Some of those vacancies are addressed on Schedule C-3.12, C-3.14 and C-3.16, however, the other vacancies reduce annual expense by \$929,788. The support for this adjustment is shown on Schedule 10 on page 46. VEDO should update the employment status at the time of hearing.

❖ Aging Workforce.

In the presentation of its case, VEDO raises an issue related to its aging workforce. Over the next twelve years, VEDO expects 290 bargaining and non-bargaining employees to retire.²¹ Schedule C-3.12 reflects an adjustment of \$184,217. Eagle believes this program has not been implemented by VEDO.

Historically, VEDO has experienced the following turnover rates²²:

Table 7: Employee Turnover.

	2005	2006	2007
Employees Who Left VEDO	67	69	89
Number of Employees	1,781	1,837	1,916
Turnover Ratio	3.8	3.8	4.6
Employees Who Left VEDO (greater than 1 year of service)	45	46	54
Stability Index	2.5	2.5	2.8

On average, over the next twelve years 24 (290/12) employees per year will retire. According to Mr. Doty, there are 881 employees as of December 31, 2006 which, based on that level of employment, the expected Stability Index of 2.7 (24/881) would be in line with historical trends.

❖ Pension Expense.

VUHI accumulates and accounts for its pension related costs in accordance with SFAS 87. It has been the practice to measure its liabilities and succeeding year costs annually on September 30. This practice is changing however due to VUHI's adoption of SFAS 158. VUHI will measure

²¹ See Doty direct testimony at page 7.

²² See Data Response 94 and 95.

its 2008 obligation and succeeding year costs on December 31. An Investment Committee is utilized and is responsible for approving assumptions such as the discount rate, rate of return and salary increases. This Committee also works closely with actuaries to develop pension related assumptions and costs.

The annual cost is recognized and calculated by the actuary on a straight-line basis over the year. For example, in 2007, the annual cost of the pension related expenss was \$9,385,376. Therefore, each month during the year, \$782,115 was charged to the clearing account. In 2008, pension cost is expected to be \$6,428,147 which will result in a monthly charge of \$535,679 to the clearing account. The annual pension costs are loaded in accordance with direct labor activity; i.e., costs are either expensed or capitalized in the same manner as the direct labor is incurred.

VEDO's test year pension expense is \$1,127,059 and is reflected on Schedule C-2.1.

❖ Operating Income Findings.

The discussion above is summarized on Table 8.

Table 8: Operating Income Findings.

<u>Description</u>	<u>Company</u>	<u>Findings</u>	<u>Eagle</u>
Rate Case Expense	\$283,416	\$211,220	\$(72,196)
Gas Cost	253,021,146	314,260,066	61,238,920
Customer Count	739,459	(739,459)	(1,478,918)
System Integrity	3,993,980	894,097	(3,099,883)
Customer Support Programs	319,739	151,882	(167,857)
Asset Charge	10,747,584	8,626,162	(2,121,422)
Labor Adjustment	48,840	(69,886)	(118,726)
PUCO/OCC Maintenance	682,457	598,733	(83,724)
Property Tax	5,336,075	5,202,883	(133,192)
Operating Budget	-	(1,650,577)	(1,650,577)
Depreciation	-	(34,786)	(34,786)
Taxes Other than Income	-	57,128	57,128
AGA Dues	4,056	(4,056)	(8,112)
Injuries and Damages	846,911	54,056	(792,855)
Miscellaneous (930.2)	574,972	(574,972)	(1,149,944)
Office Supplies	3,338,755	2,414,628	(924,127)
Dayton Air Show	105,000	(105,000)	(210,000)
New Employees	144,532	(144,532)	(289,064)
Total	<u>\$280,186,922</u>	<u>\$329,147,587</u>	<u>\$48,906,815</u>
Interest Charge for FIT	<u>\$7,846,708</u>	<u>\$7,099,403</u>	<u>\$(747,305)</u>
Gross Revenue Conversion Factor (Impact on Schedule A-1)	<u>\$27,286,137</u>	<u>\$27,238,597</u>	<u>\$(47,539)</u>

RATE OF RETURN

RATE OF RETURN SECTION

❖ Comparison of Capital Structures.

VEDO presents two costs of capital calculations for consideration. The first cost of capital utilizes the consolidated capital structure, the consolidated cost of long-term debt and Mr. Moul's cost of equity. The second cost of capital utilizes VEDO's cost of long term debt. Schedule 17 on page 61 compares the two alternatives.

❖ Elimination of Senior Notes.

During the test year, \$17.5 million of senior capital matured. The impact of removing this capital is also reflected on Schedule 17.

❖ Additional Equity Proceeds.

Vectren sold 2.4 million shares of common stock in February 2007. The transaction generated proceeds, net of underwriting discounts and commissions, of approximately \$125 million. Vectren executed an equity forward sale agreement in connection with the offering and therefore did not receive the proceeds at the time of the equity offering. The agreement allows Vectren to price an offering under market conditions existing at that time and to better match the receipt of the offering proceeds and the associated share dilution with the implementation of regulatory initiatives, providing a return on the new equity employed. The offering proceeds, when and if received, will be used to permanently finance primarily electric utility capital expenditures. The shares were sold by J. P. Morgan but have not been issued to Vectren as of March 2008. Accounting entries will not be recorded until the time of settlement. The recent decision by the Indiana Utility Regulatory Commission included these shares in Vectren's capital structure.

CASE NO. 07-1080-GA-AIR
COMPARISON OF CAPITAL STRUCTURES

SCHEDULE 17.

CLASS	AMOUNT	PERCENT	COST	WGT. COST	AMOUNT	PERCENT	COST	WGT. COST
<u>Current Case-Vectren Consolidated</u>					<u>w/o Senior Note due 2007</u>			
Long-term Debt	\$ 1,221.0	0.478	6.41	3.07	\$ 1,203.5	0.475	6.41	3.04
Preferred Stock	-	-	-	-	-	-	-	-
Common Equity	1,331.7	0.522	11.50	6.00	1,331.7	0.525	11.50	6.04
Total Capital	<u>\$ 2,552.7</u>	<u>1.000</u>		<u>9.07</u>	<u>\$ 2,535.2</u>	<u>1.000</u>		<u>9.08</u>
<u>Current Case-Vectren+VEDO Consolidated</u>					<u>w/o Senior Note due 2007</u>			
Long-term Debt	\$ 1,221.0	0.478	7.02	3.36	\$ 1,203.5	0.475	7.02	3.33
Preferred Stock	-	-	-	-	-	-	-	-
Common Equity	1,331.7	0.522	11.50	6.00	1,331.7	0.525	11.50	6.04
Total Capital	<u>\$ 2,552.7</u>	<u>1.000</u>		<u>9.36</u>	<u>\$ 2,535.2</u>	<u>1.000</u>		<u>9.37</u>
<u>Case No. 04-571-GA-AIR</u>								
Long-term Debt	\$ 1,062.4	0.489	6.73	3.29				
Preferred Stock	0.1	0.00	8.50	-				
Common Equity	1,110.1	0.511	11.05	5.65				
Total Capital	<u>\$ 2,172.6</u>	<u>1.000</u>		<u>8.94</u>				
Difference:								
Long-term Debt	\$ 158.6	(0.01)	(0.32)	(0.22)	\$ 141.1	(0.01)	(0.32)	(0.25)
Preferred Stock	(0.1)	(0.00)	(8.50)	-	0.1	(0.00)	(8.50)	-
Common Equity	221.6	0.01	0.45	0.35	221.6	0.01	0.45	0.39
Total Capital	<u>\$ 380.1</u>	<u>0.00</u>		<u>0.13</u>	<u>\$ 362.8</u>	<u>0.00</u>		<u>0.14</u>

RATES AND TARIFFS

RATES AND TARIFFS SECTION

{The primary tasks in this area were directed toward the derivation of the \$27.3 million rate increase.}

❖ Audit Procedure for SFR E-Schedules.

The following audit procedure was used in the review of the "E" section of the Application:

- 1) Compare charges on E-4.1 schedules with current (Schedule E-2) and proposed tariffs (Schedule E-1) as filed.
- 2) Review appropriate sections of PUCO Standard Filing Requirements (O.A.C. 4901-7-01) to verify company compliance with Commission filing requirements.
- 3) Compare proposed tariff in E-1 with proposed tariff in PFN Exhibit No. 3.
- 4) Verify rate extensions contained in E-4.1 schedules.
- 5) Compare E-4.1 totals with those in schedule E-4.
- 6) Verify bill calculations and derived increases on Schedule E-5.
- 7) Compare the rates as shown in the Newspaper Notice (Schedule S-3) with those in Schedule E-1.
- 8) Compare the bill calculations shown in the Newspaper Notice (Schedule S-3) with those in Schedule E-5.
- 9) Review all E-schedules for compliance with PUCO Standard Filing Requirements.
- 10) Verify work paper calculations.
- 11) Verify work paper calculations with E-4.1 schedules.
- 12) Verify that Present Revenue, Revenue Increase and Proposed Revenue on Schedule E-4 tie with the corresponding figures on Schedule C-1, Line 1.

❖ Impact of PFN Rates.

The E-Schedules' proposed revenues shown on Schedules E-4 and E-4.1 were developed based on different rates than the rates noticed in the Pre-filing Notice (PFN). The PFN rates produce an overall revenue increase

of \$28,857,157 while the Schedule E-4.1 rates produce an increase of \$27,331,070, a difference of \$1,526,087. The derivation of this calculation is shown on Schedule 18, page 66.

In addition to the PFN rate discrepancy, VEDO's published Legal Notice "noticed" the rates reflected on Schedule E-4.1 and not the PFN rates. Also, the Legal Notice did not notice "Stage 2" rates for Rates 310 and Rate 315 as reflected in Schedule E-1. A rate comparison is shown on Schedule 19, page 67.

Finally, it appears VEDO intends to increase its reconnection charge from \$40 or \$50 to \$60. The E-4.1 rate increase determination reflects \$60 as both the current and proposed rate. This presentation under-states the proposed increase by \$115,270. The derivation of the under-statement is shown on Schedule 20.

Schedule 20. Reconnection Charge.

<u>Description</u>	<u>Customer Bills</u>	<u>Charge Per Bill</u>	<u>Revenue</u>
AS FILED			
<u>Proposed Revenue</u>			
Reconnect Meter Charge	5,644	\$60.00	\$338,640
Reconnect Service Line Charge	239	\$60.00	<u>\$14,340</u>
			<u>\$352,980</u>
<u>Current Revenue</u>			
Reconnect Meter Charge	5,644	\$60.00	\$338,640
Reconnect Service Line Charge	239	\$60.00	<u>\$14,340</u>
			<u>\$352,980</u>
Revenue Increase Shown on E-Schedules			<u>\$ -</u>

Schedule 20 (Con't.)**AS CORRECTED**Proposed Revenue

Reconnect Meter Charge	5,644	\$60.00	\$338,640
Reconnect Service Line Charge	239	\$60.00	<u>\$14,340</u>
			<u>\$352,980</u>

Current Revenue

Reconnect Meter Charge	5,644	\$40.00	\$225,760
Reconnect Service Line Charge	239	\$50.00	<u>\$11,950</u>
			<u>\$237,710</u>

Actual Revenue Increase			<u>\$115,270</u>
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❖ Impact of Thirty-Year Forecast.

The impact of the 30-year normalized sales versus a 10-year normalized sales reduce sales by 14,180 MCF and increases the proposed rate increase by \$16,690. Schedule 21 on page 68 provides the support for the revenue increase.

Comparison of Proposed Revenue and Revenue Increase Based on VEDT's Filed (Schedule E-4.1) Rates and the PFN (Noticed) Rates
Case No. 07-1080-GA-AIR

(A) Rate Code	(B) Class/Description	(C) Current Revenue (\$)	(D) Based on Filed Rates (Sch. E-1)		(E) Based on PFN Rates		(F) Difference in Proposed Incr. (Col E - Col G) (\$)
			Proposed Base Revenue (\$)	Proposed Increase (\$)	Proposed Base Revenue (\$)	Proposed Increase (\$)	
1) 310	Residential Sales Service	60,435,159	78,265,987	17,830,828	78,265,987	17,830,828	\$ -
2) 315	Residential Choice Transportation Service	15,455,061	20,767,513	5,311,452	20,767,513	5,311,452	\$ -
3) 320	General Service - Non-Federal Sales Service	22,522,101	25,979,197	3,457,096	26,244,981	3,722,880	\$ (265,784)
4) 320	General Service - Federal Sales Service	169,013	184,843	15,830	187,296	18,283	\$ (2,453)
5) 325	General Service Choice - Non-Federal Transportation Service	5,335,283	6,023,522	688,239	6,095,782	760,499	\$ (72,260)
6) 325	General Service Choice - Federal Transportation Service	4,377	5,632	1,255	5,691	1,314	\$ (59)
7) 330	Large General Service - Non-Federal Sales Service	723,593	721,202	(2,391)	778,661	55,068	\$ (57,459)
8) 330	Large General Service - Federal Sales Service	90,795	95,626	4,831	105,936	15,141	\$ (10,310)
9) 330/360	Large Volume - Non-Federal Transportation Service	201,178	189,451	(11,727)	203,869	2,691	\$ (14,418)
10) 330/360	Large Volume - Federal Transportation Service	292,912	380,519	7,607	327,783	34,871	\$ (27,264)
11) 341	Dual Fuel Sales Service	3,800	4,157	357	4,646	846	\$ (489)
12) 345	Large General Service - Non-Federal Transportation Service	4,235,351	4,203,843	(31,508)	4,788,986	553,635	\$ (585,143)
13) 345	Large General Service - Federal Transportation Service	-	-	-	-	-	\$ -
14) 345/360	Large Volume - Non-Federal Transportation Service	5,402,457	5,468,221	65,764	5,947,881	545,424	\$ (479,660)
15) 345/360	Large Volume - Federal Transportation Service	163,164	154,601	(8,563)	165,389	4,225	\$ (10,788)
16) Subtotal		115,033,244	142,364,314	27,331,070	143,890,401	28,857,157	\$ (1,526,067)
17) Miscellaneous Revenue		3,026,036	3,026,036	-	3,026,036	-	\$ -
18) Total Other Revenue		3,055,430	3,055,430	-	3,055,430	-	\$ -
19) Total Company		121,115,710	148,446,780	27,331,070	149,972,857	28,857,157	\$ (1,526,067)
20) Forfeited Discounts Impact		0.0074					\$ (11,293)

Rate Case Nos. 07-1080-GA-AIR and 07-1081-GA-AIR
Vectren Energy Delivery of Ohio
Audit of PPN Exhibit 3, BFR Schedule E-1 and BFR Schedule E-4

Page 1 of 1

PPN Exhibit	E-4.1 Schedules	Newspaper Notice (Schedule E-4)
Rate 310 (Stage 1)		
Rates and Charges	Rates and Charges	Rates and Charges
Customer Charge:	Customer Charge:	Customer Charge:
Nov. - April \$ 16.75	Nov. - April \$ 16.75	Nov. - April \$ 16.75
May - October \$ 10.00	May - October \$ 10.00	May - October \$ 10.00
Volumetric Charge:	Volumetric Charge:	Volumetric Charge:
First 50 Ccf \$ 0.11937	First 50 Ccf \$ 0.11937	First 50 Ccf \$ 0.11937
> 50 Ccf \$ 0.10397	> 50 Ccf \$ 0.10397	> 50 Ccf \$ 0.10397
Rate 310 (Stage 2)		
Rates and Charges	Rates and Charges	Rates and Charges
Customer Charge:	Customer Charge:	Customer Charge:
Nov. - April \$ 22.00	Nov. - April \$ 22.00	Nov. - April \$ 22.00
May - October \$ 10.00	May - October \$ 10.00	May - October \$ 10.00
Volumetric Charge:	Volumetric Charge:	Volumetric Charge:
First 50 Ccf \$ 0.07770	First 50 Ccf \$ 0.07781	First 50 Ccf \$ 0.07781
> 50 Ccf \$ 0.06768	> 50 Ccf \$ 0.06788	> 50 Ccf \$ 0.06788
Rate 315 (Stage 1)		
Rates and Charges	Rates and Charges	Rates and Charges
Customer Charge:	Customer Charge:	Customer Charge:
Nov. - April \$ 16.75	Nov. - April \$ 16.75	Nov. - April \$ 16.75
May - October \$ 10.00	May - October \$ 10.00	May - October \$ 10.00
Volumetric Charge:	Volumetric Charge:	Volumetric Charge:
First 50 Ccf \$ 0.11937	First 50 Ccf \$ 0.11937	First 50 Ccf \$ 0.11937
> 50 Ccf \$ 0.10397	> 50 Ccf \$ 0.10397	> 50 Ccf \$ 0.10397
Rate 315 (Stage 2)		
Rates and Charges	Rates and Charges	Rates and Charges
Customer Charge:	Customer Charge:	Customer Charge:
Nov. - April \$ 22.00	Nov. - April \$ 22.00	Nov. - April \$ 22.00
May - October \$ 10.00	May - October \$ 10.00	May - October \$ 10.00
Volumetric Charge:	Volumetric Charge:	Volumetric Charge:
First 50 Ccf \$ 0.07770	First 50 Ccf \$ 0.07781	First 50 Ccf \$ 0.07781
> 50 Ccf \$ 0.06768	> 50 Ccf \$ 0.06788	> 50 Ccf \$ 0.06788
Rate 320		
Rates and Charges	Rates and Charges	Rates and Charges
Customer Charge:	Customer Charge:	Customer Charge:
Group 1 \$ 30.00	Group 1 \$ 20.00	Group 1 \$ 20.00
Group 2 \$ 40.00	Group 2 \$ 40.00	Group 2 \$ 40.00
Group 3 \$ 80.00	Group 3 \$ 80.00	Group 3 \$ 80.00
Volumetric Charge:	Volumetric Charge:	Volumetric Charge:
First 50 Ccf \$ 0.12980	First 50 Ccf \$ 0.12002	First 50 Ccf \$ 0.12002
> 50 Ccf \$ 0.10483	> 50 Ccf \$ 0.10284	> 50 Ccf \$ 0.10284
Rate 325		
Rates and Charges	Rates and Charges	Rates and Charges
Customer Charge:	Customer Charge:	Customer Charge:
Group 1 \$ 20.00	Group 1 \$ 20.00	Group 1 \$ 20.00
Group 2 \$ 40.00	Group 2 \$ 40.00	Group 2 \$ 40.00
Group 3 \$ 80.00	Group 3 \$ 80.00	Group 3 \$ 80.00
Volumetric Charge:	Volumetric Charge:	Volumetric Charge:
First 50 Ccf \$ 0.12980	First 50 Ccf \$ 0.12002	First 50 Ccf \$ 0.12002
> 50 Ccf \$ 0.10483	> 50 Ccf \$ 0.10284	> 50 Ccf \$ 0.10284
Rate 330		
Rates and Charges	Rates and Charges	Rates and Charges
Customer Charge:	Customer Charge:	Customer Charge:
\$ 150.00	\$ 150.00	\$ 150.00
Volumetric Charge:	Volumetric Charge:	Volumetric Charge:
First 15,000 Ccf \$ 0.11546	First 15,000 Ccf \$ 0.09309	First 15,000 Ccf \$ 0.09309
> 15,000 Ccf \$ 0.10240	> 15,000 Ccf \$ 0.08794	> 15,000 Ccf \$ 0.08794
Rate 341		
Rates and Charges	Rates and Charges	Rates and Charges
Customer Charge:	Customer Charge:	Customer Charge:
\$ 50.00	\$ 50.00	\$ 50.00
Volumetric Charge:	Volumetric Charge:	Volumetric Charge:
Base Delivery \$ 0.09217	Base Delivery \$ 0.04940	Base Delivery \$ 0.04940
Dual Fuel Ccf \$ 0.04082	Dual Fuel Ccf \$ 0.02207	Dual Fuel Ccf \$ 0.02207
Rate 345		
Rates and Charges	Rates and Charges	Rates and Charges
Customer Charge:	Customer Charge:	Customer Charge:
\$ 150.00	\$ 150.00	\$ 150.00
Volumetric Charge:	Volumetric Charge:	Volumetric Charge:
First 15,000 Ccf \$ 0.11546	First 15,000 Ccf \$ 0.09309	First 15,000 Ccf \$ 0.09309
> 15,000 Ccf \$ 0.10240	> 15,000 Ccf \$ 0.08794	> 15,000 Ccf \$ 0.08794
Rate 355		
Rates and Charges	Rates and Charges	Rates and Charges
Customer Charge:	Customer Charge:	Customer Charge:
\$ 500.00	\$ 500.00	\$ 500.00
Volumetric Charge:	Volumetric Charge:	Volumetric Charge:
First 50,000 Ccf \$ 0.10120	First 50,000 Ccf \$ 0.08613	First 50,000 Ccf \$ 0.08613
> 50,000 Ccf \$ 0.07058	> 50,000 Ccf \$ 0.07513	> 50,000 Ccf \$ 0.07513
	> 200,000 Ccf \$ 0.05727	> 200,000 Ccf \$ 0.05727

Note: Rates that indicate rate different from notified rate, i.e. PPN.

SCHEDULE 21.

Analysis of Impact of 10-Year vs. 30-Year Weather Normalization on Number of Customers, Sales and Revenue Increase
Case No. 07-1080-GA-AIR

Line No.	Rate Code	(A)	(B) Class/ Description	(C) 10 Year Weather Normalization		(D) 30 Year Weather Normalization		(E) Proposed Increase		(F) 30 Year Weather Normalization		(G) Proposed Increase		(H) Proposed Increase		(I) Customer Bills		(J) Difference Sales (Cdf)		(K) Proposed Increase	
				Customer Bills	Sales (Cdf)	Customer Bills	Sales (Cdf)	Proposed Increase	Proposed Increase	Customer Bills	Sales (Cdf)	Proposed Increase	Proposed Increase	Customer Bills	Sales (Cdf)	Proposed Increase	Proposed Increase	Customer Bills	Sales (Cdf)	Proposed Increase	Proposed Increase
1)	310		Residential Sales Service	2,674,136	182,007,826	\$	17,830,828			2,674,136	189,871,562	\$	17,826,971			-		(7,863,736)	\$	3,857	
2)																					
3)	315		Residential Choice Transportation Service	796,530	53,667,214	\$	5,311,452			796,530	56,003,992	\$	5,310,307			-		(2,336,778)	\$	1,145	
4)																					
5)	320		General Service - Non-Federal Sales Service	238,026	86,720,695	\$	3,457,096			238,026	90,032,424	\$	3,447,310			-		(3,311,729)	\$	9,786	
6)																					
7)	320		General Service - Federal Sales Service	1,174	1,004,674	\$	15,830			1,174	1,020,438	\$	15,784			-		(15,764)	\$	46	
8)																					
9)	325		General Service Choice - Non-Federal Transportation Service	49,581	26,373,734	\$	686,239			49,581	27,005,207	\$	686,385			-		(631,473)	\$	1,854	
10)																					
11)	325		General Service Choice - Federal Transportation Service	95	19,980	\$	1,255			95	20,774	\$	1,253			-		(794)	\$	2	
12)																					
13)	330		Large General Service - Non-Federal Sales Service	178	3,516,064	\$	(2,391)			178	3,516,064	\$	(2,391)			-		-	\$	-	
14)																					
15)	330		Large General Service - Federal Sales Service	24	690,399	\$	4,831			24	690,399	\$	4,831			-		-	\$	-	
16)																					
17)	330		Large General Service - Non-Federal Sales Service	12	2,260,180	\$	(11,727)			12	2,260,180	\$	(11,727)			-		-	\$	-	
18)																					
19)	330		Large General Service - Federal Sales Service	60	3,439,052	\$	7,607			60	3,439,052	\$	7,607			-		-	\$	-	
20)																					
21)	341		Dual Fuel Sales Service	23	23,210	\$	357			23	23,210	\$	357			-		-	\$	-	
22)																					
23)	345		Large General Service - Non-Federal Transportation Service	2,354	35,535,299	\$	(31,508)			2,354	35,535,299	\$	(31,508)			-		-	\$	-	
24)																					
25)	345		Large General Service - Federal Transportation Service	-	-	\$	-			-	-	\$	-			-		-	\$	-	
26)																					
27)	345		Large General Service - Non-Federal Transportation Service	708	57,313,101	\$	65,764			708	57,313,101	\$	65,764			-		-	\$	-	
28)																					
29)	345		Large General Service - Federal Transportation Service	12	1,997,977	\$	(6,563)			12	1,997,977	\$	(6,563)			-		-	\$	-	
30)																					
31)				3,762,913	454,589,405	\$	27,331,070			3,762,913	460,729,879	\$	27,314,380			-		(14,160,274)	\$	16,890	

Source: VEDCO 8FR Schedule E-4

❖ Customer Migration (Schedules C-3.6 and 3.7).

VEDO's customer migration schedule, C-3.6, indicates that the impact is a "zeroing" out of the sales volumes corroborating the fact that this was a migration issue given that there is no increase or decrease in volume. The majority of the migration is the result of the implementation of the new rate, Rate 360. The majority of the volume change is between the Special Contract class (schools) and Rate 325, a transportation rate. With regard to the large customer adjustment, Schedule 3.7, ninety-six percent of the volume reduction can be accounted for in VEDO's Rate 370, Special Contracts. Schedule 22 provides the volume changes for both Schedules.

Schedule 22. Customer Migration.

<u>Rate Code and Description</u>	<u>Customer Migration Adjustment (C-3.6)</u>	<u>Large Customer Changes (C-3.7)</u>
	(Ccf)	(Ccf)
320 Non-Fed	(65,272)	-
320 Fed	492,960	-
325 Non-Fed	10,042,232	-
325 Fed	-	-
330 Non-Fed (Other)	(1,713,739)	26,339
330 Non-Fed (to Rate 360)	-	-
330 Fed (Other)	(492,960)	-
330 Fed (to Rate 360)	-	-
341	(24,977)	-
345 Non-Fed (Other)	1,596,051	(228,110)
345 Non-Fed (to Rate 360)	-	-
345 Fed (other	-	-
345 Fed (to Rate 360)	-	-
370 Special Contract	-	(12,114,819)
370 Spec Contract - Schools	(9,834,293)	(263,927)
Total	<u>2</u>	<u>(12,580,517)</u>

❖ Compliance with OAC.

The tariffs filed with the Application did not comply with 4901-7-01(B) and 4901-7-01(B)(2). VEDO explained they did receive Staff approval to file the "edited" versions of the tariffs. Eagle believes a formal waiver request should have been filed on this matter.

❖ Bill Calculations.

Eagle reviewed the bill calculations on Schedule E-5 and randomly selected three bills for each tariff. In all cases we found the calculations to be appropriate.

❖ Rates and Tariff Findings.

The following issues result from Eagle's audit:

1. Weather normalized sales.
2. Appropriate EGC rate.
3. PFN rates.
4. Compliance with 4901-7 OAC.

Table 9. Rates and tariff Findings.

Description	Company	Findings	Eagle
PFN Rates	\$ -	\$1,526,087	\$1,526,087
Reconnection Charge	-	115,270	115,270
Forfeited Discounts	2,523,554	2,970,863	447,309
Weather Normalization	16,490	-	(16,490)
Operating Budget	-	(15,829)	(15,829)
Gas Cost	253,021,146	314,260,066	61,238,920
Total	<u>\$255,561,190</u>	<u>\$318,856,457</u>	<u>\$63,295,267</u>

Alternative Regulation Proposal.

VEDO is proposing several alternative regulation programs in this case in exchange for its DSM commitment. The programs are:

1. Bare steel and cast iron replacement program. During the year 2007 there was approximately \$2.5 million budgeted for this program. The 2008 budget for similar work was \$8.5 million. During the test year (through January 2008) \$618,165 was actually expended. This cost excludes service replacements, which are not tracked as part of this program.
2. Riser inventory and replacement program. This program was not budgeted during 2007 or 2008. VEDO indicated that this program would be completed by the end of the year 2007. The riser program expenditures during the test year (through January 2008) were \$1,835,841. These expenditures have been deferred in accordance with Case No. 07-294-GA-AAM.
3. Service line ownership. Currently, this program is not budgeted separately. In the future, this program will only be budgeted as a decision is made relative to service line ownership as proposed by VEDO.
4. Aging workforce program. This program was budgeted during the year 2008 at a rate of \$24,794 per month. Total budgeted expenditures during the test year are \$127,068. Through January 2008, VEDO had not incurred any expense related to this program.
5. System maintenance program. During 2007, these programs were not reflected in VEDO's budgets but have been included in the Application as adjustments. This program consists of five "sub" programs as follows:
 - i. Regulator station rock/fence maintenance. The maintenance amount in the test year is \$76,806.

Through January 2008, VEDO had not incurred any expense related to this program.

- ii. Regulator station maintenance. The amount for this maintenance program in the test year is \$24,562. Through January 2008, the actual expenditures were \$6,401.
 - iii. Commercial and Industrial (C&I) Regulator station. The test year expense for this program is \$221,244. VEDO had not expended any funds on this program through January 2008. Eagle believes these costs should be directly assigned to the 4,041 C&I customers who require this service either through a special contract or an increased monthly service charge in the specific tariff. It appears VEDO's cost of service study allocates the plant element based on a meter study, however, the expense component is allocated to all customer classes based on the "total component of mains". Eagle believes all customers should not subsidize this specific cost.
 - iv. Regulator vault program. The program amount in the test year is \$22,912. VEDO had not expended any funds on this program through January 2008.
 - v. Curb box maintenance. The program amount in the test year is \$75,495. VEDO had not incurred any expense through January 2008.
6. DSM Programs. The budget amount for the test year reflects a monthly expenditure of \$91,667 or \$1.1 million annually as a result of VEDO's commitment in Case No. 04-571-GA-AIR. An additional amount of \$83,333 or \$1 million annually is being charged "below the line" as a result of Case No. 05-1444-GA-UNC.

The test year actual expense through January 2008 matches the budgeted expenses for the DSM program.

The following table summarizes the alternative regulation expenditures:

Table 10: Alt Reg Expenditures.

Program	Test Year	Actual	Difference
Main Replacement	\$ 0	\$ 618,165	\$ 618,165
Riser Inventory	\$ 0	\$1,835,841	\$1,834,841
Service Line Ownership	\$ 0	\$ 0	\$ 0
Aging Workforce	\$127,068	\$ 0	(\$127,068)
System Maintenance	\$421,019	\$ 6,401	(\$414,618)
DSM	\$825,000	\$ 733,333	(\$ 91,667)

❖ Distribution Replacement Rider.

In Case No. 07-1081-GA-ALT, VEDO has proposed a Distribution Replacement Rider in order to accelerate recovery of expenditures related to bare steel and cast iron mains and related customer service laterals. The rapid recovery of the capital costs is the “quid pro quo” for the implementation of the alternative regulation programs discussed above.

VEDO has approximately 5,183 miles of pipeline in its Ohio service area. Of the total, 534 miles are bare steel and 174 miles are cast iron that VEDO desires to replace over the next twenty years²³. The mains to be replaced represent about 14 percent of the total system and the estimated annual cost is \$8.5 million excluding the cost of services²⁴. The revenue requirement over the next twenty years is approximately \$54 million.

²³ See the testimony of Mr. James Francis.

²⁴ See the testimony of Mr. Scott Albertson for a full description of the program.

While the costs will be allocated to all customer classes, the impact to the residential class will be an increase from the current service charge of \$15 per month to almost \$100 at the conclusion of the program.

During the audit Eagle explored the idea with VEDO of other possible rate alternatives that may have been considered. It appears VEDO did not consider any other cost recovery program.

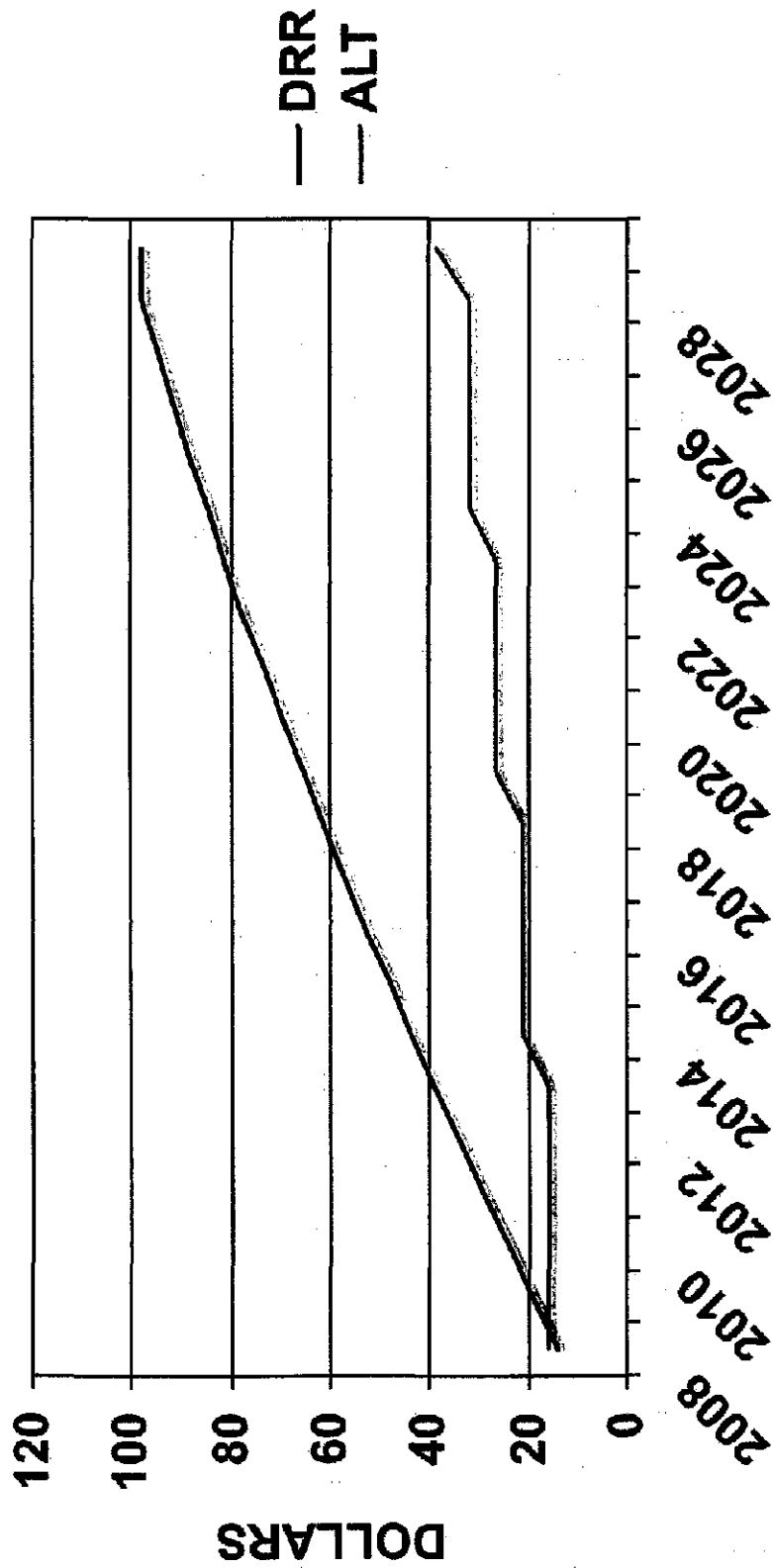
Eagle has reviewed the program and believes another alternative deserves some consideration. It appears that the lives of cast iron and bare steel are considerably less than the current 56.5 years reflected by existing depreciation rates. If VEDO intends to have the replacement program completed in twenty years, then it would seem to imply that the depreciation rate should be increased to 5% (equivalent to 20 years) for those mains to be replaced. This change, if adopted and included in this case, would result in an immediate annual revenue stream of \$942,000 to VEDO as shown on Schedule 23 on page 76.

Eagle believes that the deferred construction expenditures and timely base rate increases will be more palatable to the customer than the "automatic" increase expected to be incurred each year through VEDO's proposed DRR Rider. The Commission could authorize the deferrals similar to those in the recent decision by the Indiana Utility Regulatory Commission²⁵. However, Eagle believes a requirement to file for rate relief every five years, as the Indiana Commission instructed, should not be imposed on VEDO should the Commission adopt Eagle's proposal. In Eagle's opinion, the Commission, VEDO and the customer would be better served by allowing VEDO to continue to defer expenditures and capture those expenditures as they are reflected in future revenue requirements determined by the Commission.

²⁵ See Cause No. 43298 decided February 13, 2008.

Eagle believes this alternative would be far less difficult to administer and would result in a gradual rate increase rather than the automatic increase prescribed by Rider DRR. Illustration 5 on page 77 shows a twenty-year comparison of the customer bill impact of Rider DRR and bill increases based on Eagle's proposed methodology. At the end of the twenty-year period, customers would be experiencing a \$100 increase in their bills under DRR while Eagle's proposal the customer would see a \$40 increase. On a net present value (NPV) basis, VEDO's proposal results in cost of \$276 million compared to the depreciation rate change equivalent of \$126 million on a NPV basis.

ESTIMATED IMPACT ON RESIDENTIAL CUSTOMERS
 DRR RIDER VS ALTERNATIVE RATE TREATMENT
 FOR MAIN REPLACEMENT PROGRAM



Conclusion.

In addition to the audit findings, Eagle Energy believes it is useful to comment upon our experiences during the review process, at least from our perspective.

VEDO's responses to more than 100 data requests were generally positive. The information and assistance received was very helpful in addressing issues. Eagle believes when dealing with multiple regulatory agencies in different jurisdictions, differences in procedure and process should be noted as applications are processed. Since the last case, a regulatory group has been established with regulatory issues as its primary responsibility. This group is highly professional and Eagle believes the existence of this group will improve the regulatory process in the future.

In all cases, we found the Applicant's staff to be extremely friendly, accommodating and professional. This attitude enabled our tasks to be performed efficiently and effectively. Eagle is grateful for the courtesies extended during the course of the audit.

Eagle Energy, LLC.

APPENDIX I

DATA REQUESTS TO SUPPORT CERTAIN AUDIT FINDINGS

**VECTREN ENERGY DELIVERY OF OHIO
DATA REQUEST CASE NO. 07-1080-GA-AIR**

REQUEST NO.: 55

TASK: C SECTION

CONFIDENTIAL: N

REQUESTED DUE DATE: February 23

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REQUEST:

Please provide the detail and explain the increase for the month of December in account 921 on Supplement C-8.

RESPONSE:

Please see the attached schedule for the account detail. The increase in December is due to a final budget adjustment which was input in the month of December.

Vectren Energy Delivery of Ohio, Inc.
Monthly Test Year Expenses for FERC Accounts 921
Eagle Energy Data Request No. 55
Case No. 07-1080-GA-AIR; 07-1081-GA-ALT

Oracle Account Description	June 2007 Actual	July 2007 Actual	August 2007 Actual	September 2007 Budget	October 2007 Budget	November 2007 Budget	December 2007 Budget	January 2008 Budget	February 2008 Budget	March 2008 Budget	April 2008 Budget	May 2008 Budget	Total Test Year
921-Office Supplies and Expenses -													
6281000 EXPENSES OF GENERAL OFFICERS,	263.03	336.91	4,239.49	(1,235.00)	(1,235.00)	(1,235.00)	(1,235.00)	(1,265.88)	(1,265.88)	(1,265.88)	(1,265.88)	(1,265.88)	(6,429.97)
6281100 ALL OTHER EXPENSES	111,595.29	112,911.94	149,900.27	147,768.67	168,220.85	310,653.02	1,133,007.75	360,907.97	144,134.53	201,334.73	236,667.78	261,651.98	3,338,754.78
6281101 BANK CHARGES	39,878.68	22,829.43	24,556.76	38,485.85	28,420.10	29,613.05	37,437.60	22,820.86	50,868.85	38,218.00	22,205.86	26,152.31	381,507.35
6281106 OFFICE SUPPLIES	0.00	0.00	0.00	85.00	85.00	85.00	85.00	87.13	87.13	87.13	87.13	87.13	775.65

298,881 =
average / month

**VECTREN ENERGY DELIVERY OF OHIO
DATA REQUEST CASE NO. 07-1080-GA-AIR**

REQUEST NO.: 69

TASK: B-Section

CONFIDENTIAL: N

REQUESTED DUE DATE: March 3

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REQUEST:

Please provide a list of work orders in Plant Account 106 as of date certain. Please include "Project Completion", "In Service" dates, and "Total Charges" for each work order.

RESPONSE:

Please see the attached document titled Eagle DR #69.

Vectren Energy Delivery of Ohio, Inc.
Account 106 (CCNC) - Work Order Detail
Eagle Energy DR #69
Case No. 07-1080-GA-AIR; 07-1081-GA-ALT

<u>wrk ord num id c</u>	<u>work completed</u>	<u>in service-date</u>	<u>Total</u>
02046641021-047	1/1/05	1/1/05	(4,834.00)
04046841069-047	2/1/05	2/1/05	16,020.74
04046861714-040	4/1/05	4/1/05	(8,227.44)
04046941039-047	6/1/05	6/1/05	9,891.18
04046961702-029	1/1/05	1/1/05	151,948.96
04048111093-039	6/1/05	6/1/05	16,108.33
04048141068-047	5/1/07	5/1/07	10,302.77
05046641017-047	2/1/07	2/1/07	18,476.33
05046641047-047	3/1/07	3/1/07	13,161.02
05046713011-029	5/1/05	5/1/05	3,969.95
05046841024-047	7/1/05	7/1/05	21,259.26
05046841031-047	7/1/05	7/1/05	3,163.70
05046841034-047	10/1/05	10/1/05	3,593.38
05046843700-037	5/1/06	5/1/06	26,354.54
05046851012-035	12/1/05	12/1/05	61,833.21
05046851710-035	9/1/05	9/1/05	30,166.88
05046941011-047	1/1/06	1/1/06	32,939.45
05046941031-047	7/1/05	7/1/05	4,318.81
05046941033-047	7/1/05	7/1/05	18,769.93
05046941041-047	11/1/05	11/1/05	14,108.87
05046941044-047	1/1/06	1/1/06	6,052.30
05046941052-047	1/1/06	1/1/06	45,296.05
05046941059-047	3/1/07	3/1/07	9,883.20
05046941065-047	5/1/06	5/1/06	14,720.72
05046941071-047	10/1/06	10/1/06	38,876.82
05046951019-035	1/1/06	1/1/06	23,789.97
05046951701-035	8/1/07	8/1/07	(34.34)
05048141013-047	11/1/06	11/1/06	(7,027.70)
05048141016-047	8/1/05	8/1/05	19,126.34
05048141021-047	5/1/07	5/1/07	28,057.03
05048141024-047	4/1/07	4/1/07	9,634.22
05048141030-047	12/1/06	12/1/06	6,927.88
05048141031-047	10/1/06	10/1/06	12,708.70
05048141038-047	2/1/07	2/1/07	17,464.12
05048151704-035	11/1/05	11/1/05	7,667.35
05048241019-047	12/1/05	12/1/05	100,387.24
05561785010-510	2/1/07	2/1/07	5,588,323.55
06046641011-047	1/1/07	1/1/07	132,476.84
06046641012-047	4/1/07	4/1/07	4,421.96
06046641018-047	4/1/07	4/1/07	21,796.59
06046641019-047	1/1/07	1/1/07	32,592.68
06046641021-047	1/1/07	1/1/07	23,196.19
06046641023-047	4/1/07	4/1/07	24,658.06
06046641025-047	1/1/07	1/1/07	19,118.01
06046641028-047	5/1/07	5/1/07	22,812.67
06046641029-047	4/1/07	4/1/07	14,450.37
06046641030-047	4/1/07	4/1/07	22,598.18
06046641031-047	4/1/07	4/1/07	2,998.16
06046641032-047	2/1/07	2/1/07	16,326.43
06046641033-047	3/1/07	3/1/07	20,345.55

← Air Services

Vectren Energy Delivery of Ohio, Inc.
Account 106 (CCNC) - Work Order Detail
Eagle Energy DR #69
Case No. 07-1080-GA-AIR; 07-1081-GA-ALT

<u>wrk ord num id c</u>	<u>work completed</u>	<u>in service-date</u>	<u>Total</u>
06046641037-047	5/1/07	5/1/07	22,204.94
06046641039-047	8/1/07	8/1/07	25,157.93
06046641043-047	2/1/07	2/1/07	9,697.58
06046641044-047	5/1/07	5/1/07	16,447.33
06046741012-047	4/1/07	4/1/07	63,444.28
06046741015-047	1/1/07	1/1/07	3,817.85
06046741016-047	4/1/07	4/1/07	9,285.31
06046741017-047	1/1/07	1/1/07	1,459.38
06046751013-035	1/1/07	1/1/07	15,389.51
06046751014-035	4/1/07	4/1/07	1,707.39
06046761011-040	5/1/07	5/1/07	10,115.96
06046841013-047	8/1/07	8/1/07	14,100.86
06046841032-047	4/1/07	4/1/07	58,547.52
06046841035-047	4/1/07	4/1/07	5,149.31
06046841036-047	8/1/07	8/1/07	22,756.00
06046841037-047	8/1/07	8/1/07	9,258.17
06046851010-035	1/1/07	1/1/07	32,405.88
06046851706-035	8/1/06	8/1/06	26,264.44
06046851708-035	10/1/06	10/1/06	20,360.21
06046851709-035	10/1/06	10/1/06	11,131.06
06046941013-047	5/1/07	5/1/07	41,387.35
06046941016-047	10/1/06	10/1/06	9,867.03
06046941017-047	10/1/06	10/1/06	2,172.42
06046941018-047	7/1/07	7/1/07	57,506.38
06046941024-047	6/1/07	6/1/07	24,145.73
06046941026-047	1/1/07	1/1/07	28,897.86
06046941028-047	9/1/06	9/1/06	45,525.32
06046941029-047	1/1/07	1/1/07	10,574.82
06046941031-047	4/1/07	4/1/07	14,724.44
06046941033-047	3/1/07	3/1/07	21,745.64
06046941034-047	12/1/06	12/1/06	25,360.23
06046941035-047	3/1/07	3/1/07	15,194.63
06046941036-047	12/1/06	12/1/06	3,539.13
06046941037-047	5/1/07	5/1/07	38,118.92
06046941048-047	3/1/07	3/1/07	7,925.99
06046941053-047	3/1/07	3/1/07	963.36
06046941061-047	7/1/07	7/1/07	8,783.90
06046941062-047	6/1/07	6/1/07	4,337.11
06046951012-035	4/1/06	4/1/06	8,219.08
06046951015-035	5/1/06	5/1/06	10,348.78
06046951019-035	8/1/06	8/1/06	3,175.73
06046951022-035	3/1/07	3/1/07	26,566.23
06046951025-035	3/1/07	3/1/07	201,164.39
06046951029-035	2/1/07	2/1/07	2,500.56
06046951031-035	1/1/07	1/1/07	40,056.40
06046961011-040	5/1/06	5/1/06	31,670.41
06046961013-040	8/1/06	8/1/06	215,603.88
06046961701-040	1/1/07	1/1/07	9,311.09
06048111011-039	2/1/07	2/1/07	6,893.88
06048111012-039	12/1/06	12/1/06	18,930.54

Vectren Energy Delivery of Ohio, Inc.
Account 106 (CCNC) - Work Order Detail
Eagle Energy DR #69
Case No. 07-1080-GA-AIR; 07-1081-GA-ALT

<u>wrk ord num id c</u>	<u>work completed</u>	<u>in service date</u>	<u>Total</u>
06048113010-029	3/1/07	3/1/07	10,286.96
06048141020-047	1/1/07	1/1/07	9,380.04
06048141030-047	11/1/06	11/1/06	17,957.10
06048141040-047	4/1/07	4/1/07	15,987.16
06048141042-047	12/1/06	12/1/06	53,186.24
06048141046-047	4/1/07	4/1/07	(1,629.64)
06048151010-035	6/1/07	6/1/07	13,700.93
06048151702-035	3/1/06	3/1/06	(72.00)
06048161010-040	2/1/07	2/1/07	258,053.67
06048161011-040	7/1/06	7/1/06	72,034.54
06048161019-040	4/1/07	4/1/07	11,873.75
06048161020-040	2/1/07	2/1/07	20,678.68
06048161701-010	7/1/07	7/1/07	62,648.70
06058081011-511	2/1/07	2/1/07	81,003.00
06058091146-516	8/1/07	8/1/07	90,790.41
06058091147-516	7/1/07	7/1/07	90,362.11
06058091192-516	7/1/07	7/1/07	31,208.07
06058091193-516	7/1/07	7/1/07	31,208.07
06058091194-516	7/1/07	7/1/07	31,208.07
06058091195-516	7/1/07	7/1/07	31,428.11
06058091196-516	7/1/07	7/1/07	31,100.37
06058091197-516	2/1/07	2/1/07	6,522.02
06202753608-033	8/1/07	8/1/07	14,681,521.61
07046641010-047	6/1/07	6/1/07	85,983.13
07046641011-047	8/1/07	8/1/07	21,949.41
07046641013-047	6/1/07	6/1/07	(1,627.15)
07046641015-047	7/1/07	7/1/07	4,636.31
07046651010-035	4/1/07	4/1/07	4,626.91
07046651011-035	7/1/07	7/1/07	36,145.06
07046651014-035	7/1/07	7/1/07	121,633.95
07046651017-035	5/1/07	5/1/07	4,821.76
07046651018-035	6/1/07	6/1/07	4,510.54
07046651019-035	7/1/07	7/1/07	25,972.05
07046741010-047	4/1/07	4/1/07	4,547.25
07046741011-047	4/1/07	4/1/07	2,725.20
07046741014-047	8/1/07	8/1/07	(1,540.25)
07046841012-047	8/1/07	8/1/07	6,159.75
07046941010-047	6/1/07	6/1/07	3,154.35
07046941012-047	4/1/07	4/1/07	10,068.94
07046941015-047	7/1/07	7/1/07	26,270.76
07046941020-047	7/1/07	7/1/07	6,108.42
07046951011-035	7/1/07	7/1/07	6,135.64
07046951012-035	6/1/07	6/1/07	13,096.40
07046951013-035	7/1/07	7/1/07	4,379.25
07046951017-035	7/1/07	7/1/07	6,293.65
07046951700-035	4/1/07	4/1/07	11,497.15
07048113010-029	6/1/07	6/1/07	10,560.81
07048141010-047	3/1/07	3/1/07	2,867.87
07048141012-047	4/1/07	4/1/07	11,383.44
07048141014-047	5/1/07	5/1/07	(2,667.62)

Vectren Energy Delivery of Ohio, Inc.
Account 106 (CCNC) - Work Order Detail
Eagle Energy DR #69
Case No. 07-1080-GA-AIR; 07-1081-GA-ALT

<u>wrk ord num id c</u>	<u>work completed</u>	<u>in service-date</u>	<u>Total</u>
07048141017-047	8/1/07	8/1/07	3,375.88
07048141019-047	7/1/07	7/1/07	323.87
07048151010-035	8/1/07	8/1/07	2,071.95
07048151700-035	6/1/07	6/1/07	25,448.86
07048161010-040	5/1/07	5/1/07	49,711.22
07048161013-040	7/1/07	7/1/07	3,721.73
07048161014-040	7/1/07	7/1/07	2,546.07
07048161015-040	7/1/07	7/1/07	9,627.89
07048161016-040	8/1/07	8/1/07	16,554.99
07048161700-040	4/1/07	4/1/07	34,133.46
07048161701-040	4/1/07	4/1/07	15,972.37
07048161702-040	5/1/07	5/1/07	22,490.13
07048161703-040	5/1/07	5/1/07	41,454.47
07048181010-511	2/1/07	2/1/07	9,028.59
07048251010-035	6/1/07	6/1/07	14,856.90
07048251017-035	8/1/07	8/1/07	1,519.45
07048251700-035	2/1/07	2/1/07	6,059.55
07048251701-035	8/1/07	8/1/07	38,290.27
07048251800-035	7/1/07	7/1/07	23,730.46
07058081010-511	7/1/07	7/1/07	79,801.32
07058091012-516	7/1/07	7/1/07	41,750.01
07058091013-516	7/1/07	7/1/07	41,309.59
07058091014-516	7/1/07	7/1/07	66,687.88
07058091015-516	7/1/07	7/1/07	67,223.40
07058091017-516	7/1/07	7/1/07	67,223.40
07058091019-516	7/1/07	7/1/07	6,401.18
07058091020-516	7/1/07	7/1/07	6,401.18
07058091021-516	7/1/07	7/1/07	7,077.95
07058091022-516	7/1/07	7/1/07	6,401.18
07058091023-516	7/1/07	7/1/07	6,431.36
07058091024-516	7/1/07	7/1/07	6,401.18
07058091025-516	7/1/07	7/1/07	6,401.18
07058091026-516	7/1/07	7/1/07	6,400.00
07058091027-516	7/1/07	7/1/07	6,454.80
07058091028-516	7/1/07	7/1/07	6,461.58
07058091057-516	8/1/07	8/1/07	44,023.89
07058091062-516	8/1/07	8/1/07	19,819.02
07A57593011-509	7/1/07	7/1/07	2,866.78
07A57593016-509	7/1/07	7/1/07	3,790.56
07A57593017-509	7/1/07	7/1/07	2,531.11
63597C-026.0000	4/1/04	4/1/04	139.03
63956C-026.0000	5/1/07	5/1/07	(71.57)
63956C-026.0383	5/1/07	5/1/07	(52.97)
07A57511012-039	8/31/07	8/31/07	2,788.60
05046951702-035	8/15/07	8/15/07	31,499.36
05048141013-047	7/30/07	7/30/07	101,377.46
06046641042-047	8/31/07	8/31/07	19,067.11
06046651018-035	8/31/07	8/31/07	3,029.88
06046841014-047	3/31/07	3/31/07	28,810.22
06046841026-047	2/2/07	2/2/07	13,336.30

Vectren Energy Delivery of Ohio, Inc.
Account 106 (CCNC) - Work Order Detail
Eagle Energy DR #69
Case No. 07-1080-GA-AIR; 07-1081-GA-ALT

<u>wrk ord num id c</u>	<u>work completed</u>	<u>in service-date</u>	<u>Total</u>
06046841033-047	8/31/07	8/31/07	12,082.55
06046851711-035	2/22/07	2/22/07	47,240.32
06046941054-047	4/19/07	4/19/07	7,471.01
06048241012-047	5/21/07	5/21/07	41,077.31
06202751600-035	3/10/07	3/10/07	225,559.34
07046641012-047	8/31/07	8/31/07	200,015.12
07046641021-047	8/31/07	8/31/07	1,336.41
07046641026-047	8/21/07	8/21/07	1,903.99
07046651012-035	8/31/07	8/31/07	27,396.96
07046651015-035	8/31/07	8/31/07	5,742.18
07046841010-047	4/10/07	4/10/07	4,023.27
07046841011-047	8/31/07	8/31/07	10,383.43
07046841013-047	5/24/07	5/24/07	15,870.59
07046851011-035	8/31/07	8/31/07	4,702.84
07046851700-035	4/17/07	4/17/07	2,626.88
07046851701-035	7/16/07	7/16/07	8,115.12
07046851703-035	8/21/07	8/21/07	6,119.75
07046851800-035	4/16/07	4/16/07	16,336.86
07046851801-035	7/11/07	7/11/07	1,066.10
07046861010-040	5/4/07	5/4/07	89,187.03
07046861011-040	3/7/07	3/7/07	7,595.56
07046861012-040	6/9/07	6/9/07	37,842.23
07046861013-040	7/20/07	7/20/07	14,964.77
07046861700-040	8/31/07	8/31/07	58,790.59
07046861705-040	8/31/07	8/31/07	20,389.03
07046941014-047	8/15/07	8/15/07	8,629.91
07046941019-047	8/21/07	8/21/07	6,833.09
07046951014-035	4/19/07	4/19/07	4,820.31
07046951701-035	8/1/07	8/1/07	649.34
07046951702-035	8/2/07	8/2/07	15,736.33
07046951801-035	8/29/07	8/29/07	2,631.65
07046961010-040	5/8/07	5/8/07	81,269.76
07046961011-040	6/25/07	6/25/07	136,455.54
07046961012-040	6/27/07	6/27/07	57,273.07
07046961013-040	8/8/07	8/8/07	1,387.29
07048141011-047	8/31/07	8/31/07	16,354.21
07048161012-040	8/31/07	8/31/07	24,347.64
07048161017-040	8/31/07	8/31/07	5,182.11
07048161018-040	8/9/07	8/9/07	2,248.00
07048161019-040	8/31/07	8/31/07	24,864.39
07048251015-035	8/31/07	8/31/07	4,980.34
07048251702-035	8/31/07	8/31/07	35,480.58
05048141013-047	7/30/07	7/30/07	70,448.76
			<hr/> 26,507,145.74
Rounding			27.96
			<hr/> 26,507,117.78

EAGLE #79
Property Tax Evaluation – Date Certain

VECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR and 07-1081-GA-ALT
EAGLE DATA REQUEST NO. 79
SCHEDULE OF PROPERTY TAXES
BASED ON PLANT AT DECEMBER 31, 2006

Page 2 of 2

LINE NO.	DESCRIPTION	JURISDICTIONAL AMOUNT (\$)
1	(A) 2006 ASSESSED VALUE	58,846,610
2		
3	(B) ORIGINAL COST OF PLANT AT 12/31/06	438,143,966
4		
5	ESTIMATED VALUATION PERCENTAGE (A/B)	<u>13.431%</u>
6		
7	(C) 2006 PROPERTY TAXES PAID	4,724,435
8		
9	AVERAGE TAX RATE PER \$1,000 OF VALUATION (C/A)	<u>\$ 80.284</u>

VECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR and 07-1081-GA-ALT
EAGLE DATA REQUEST NO. 79
SCHEDULE OF PROPERTY TAXES
BASED ON PLANT AT AUGUST 31, 2007

Page 1 of 2

LINE NO.	DESCRIPTION	SCHEDULE/ WORK PAPER REFERENCE	JURISDICTIONAL AMOUNT (\$)
1	Ohio Property Tax		
2	Original Cost @ 8-31-07	Sch B-1	\$ 466,295,537
3	Ohio Materials & Supplies	WPB-5.1	921,795
4	Ohio Fuel Stock	WPB-5.1	644,702
6		Sum of Lines 2-5	\$ 467,862,034
7	Estimated Valuation Percent (A)	Page 2 of 2, Line 5	13.431%
8	Property Valuation	Line 6 x Line 7	\$ 62,838,550
9	Average Tax Rate Per \$1,000 Valuation (B)	Page 2 of 2, Line 9	\$80.284
10	Property Tax - Ohio	(Line 8 x Line 9)/1000	\$ 5,044,923
11	Property Tax - West Virginia	Taxes Paid in 2007	174,844
12	Total Property Taxes - Gas Operations	Line 10 + Line 11	\$ 5,219,767
13	Less: Test Year Property Tax Expense	Sch C-2.1	\$ 5,336,075
14	Annualization Adjustment to Property Tax		\$ (116,308)

(A) 2006 Ohio Valuation is 14.664% of Original Cost @ 12/31/06.

(B) Ohio Average Distributable Rate for 2006: \$80.284 per \$1,000 valuation.

Excluding Mat S and Fuel:

*466,295,537
x 13.431 % =*

62,628,154

5,028,039

174,844

5,202,883

5,336,075

< 133,152 >

EAGLE #84
AGA and Ohio Gas Association Invoices

File # 446825

AMERICAN GAS ASSOCIATION

Invoice # 46189

Invoice
for
Vectren Corporation

Mr. William S. Doty
Executive Vice President, Utility Operations
Vectren Corporation
One Vectren Square
Evansville, IN 47708-0000

MP
SCAN TO MITO
SEND TO SUSAN FEASTER
0570 CORP
290.075Z

January 18, 2008

DESCRIPTION	AMOUNT
Dues for 2008 membership year: \$316,862.00	
First Quarterly Payment	\$79,215.50

REMIT PAYMENT WITH DUPLICATE COPY OF INVOICE TO:

AMERICAN GAS ASSOCIATION
Post Office Box 79226
Baltimore, MD 21279-0226
Telephone (202) 824-7256
Fax (202) 824-9156

IMPORTANT IRS REQUIRED NOTICE

Federal regulations require us to advise you that contributions or gifts to the American Gas Association are not deductible as charitable contributions for federal income tax purposes. Dues payments are usually deductible by members as an ordinary and necessary business expense. The American Gas Association expects that a portion of your dues may be used to influence legislation. It is estimated that approximately four percent of your dues may be non-deductible as an ordinary and necessary business expense. The Association will inform you if the actual non-deductible amount materially exceeds this estimate.

Dues include a one-year subscription to *American Gas*, the normal subscription rate for which is \$59.00 per year for U.S. and Canadian subscribers and \$110.00 per year for international subscribers.

AMERICAN GAS ASSOCIATION
2008 BUDGET

	\$ 2008 <u>ALLOCATION</u>	% 2008 <u>ALLOCATION</u>
Advertising	\$300,000	1.18%
Corporate Affairs	\$2,317,000	9.14%
General & Administrative	\$5,127,000	20.22%
General Counsel	\$1,056,000	4.17%
Industry Finance & Administrative Programs	\$852,000	3.36%
Operations & Engineering Management	\$5,505,000	21.71%
Policy, Planning & Regulatory Affairs	\$4,000,000	15.78%
Public Affairs	<u>\$6,195,000</u>	<u>24.44%</u>
Total Budget	\$25,352,000	100.00%

Note

AGA estimates that lobbying expenses, as defined under IRC Section 162, will account for 4% of member dues in 2008.



200 CIVIC CENTER DRIVE, SUITE 110 • COLUMBUS, OHIO 43215 • 614-224-1036

INVOICE

2008 Corporate Membership Dues

TO: John Spinks
Vectren Energy Delivery
1300 Experiment Farm Road
Troy, Ohio 45373

2008 Corporate Membership Dues (January through December 2008)

Base Amount	\$ 1,000.00
Add: \$0.05 x 319,937 (number of meters)	<u>\$15,996.85</u>
Total annual membership dues (up to yearly maximum of \$40,000)	\$16,996.85

Pursuant to Board action, this program is now included on the dues invoice

Contractor/Excavator Notification (program to assist member companies with USDOT Section 192.614 and 192.616 compliance)	\$ 750.00
--	-----------

TOTAL	\$17,746.85
--------------	--------------------

Please make check payable to Ohio Gas Association and remit to 200 Civic Center Drive,
Suite 110, Columbus, Ohio 43215 or contact the OGA office at (614) 224-1036 to pay by
credit card.

94. Number of employees who have left Company during 2005-2007, not including retirements.

Response:

Responder: Ellis Redd

2005 – 67 employees.

2006 – 69 employees.

2007 – 89 employees.

95. How many of those employees who have left the Company had more than one year of service (Exclude employees who retired)?

Response:

Responder: Ellis Redd

2005 – 45 employees.

2006 – 46 employees.

2007 – 54 employees.

106. What is the current status of plant disallowed in the last rate case?

Response:

Responder: Susan Hardwick

As no retirement of this plant has been submitted by the operations organization, the plant remains in service.

VEDO Customer Satisfaction

General Perception 2005 - 2007

% Satisfied or Very Satisfied

	January	February	March	April	May	June	July	August	September	October	November	December
2005 Overall Perception*	95%	90%	97%	94%	95%	96%	98%	95%	95%	90%	84%	96%
2006 Overall Perception*	87%	89%	85%	95%	94%	97%	97%	94%	93%	96%	98%	96%
2007 Overall Perception*	98%	96%	93%	95%	98%	96%	95%	95%	95%	97%	93%	97%

99.75
94.15
95.67

*Overall Perception includes the perception of residential, commercial, and key account customers

D.R. 100

EAGLE #111
Dayton Air Show Contributions

Vectren Energy Delivery of Ohio, Inc.
Dayton Air Show Contributions
Eagle Data Request No. 111
Case No. 07-1080-GA-AIR; 07-1081-GA-ALT

<u>Gl Date</u>	<u>Invoice Number</u>	<u>Vendor Name</u>	<u>Accounting Flexfield</u>	<u>Amount SUM</u>	<u>Period Name</u>
12-Jun-07	1200	VECTREN DAYTON AIR SHOW	99-500-A521-6281403-0000	\$ 50,000.00	JUN-07
8-Feb-08	1242	VECTREN DAYTON AIR SHOW	99-500-A521-6281403-0000	\$ 55,000.00	FEB-08

125. Adjustment C-3.3 Annualized Revenue Customer Count – Is this adjustment due to a refinement of the budget estimate for estimated customers?

Response:

Yes. In addition, a small portion of this adjustment reflects a reduction in customers expected by an increase in rates. Please response to OCC Interrogatory 131 (below) for further details.

OCC Interrogatory No. 131 - Referring to Ms. Hardwick's direct testimony at page 12, lines 30-31, how many residential customers does the Company expect to lose as a result of an increase in base rates?

RESPONSE:

Responder: Susan Hardwick

2,200 Residential Rate 310/315 and 885 General Service Rate 320/3225. The expected reduction is likely to be limited to those with single base load appliances such as water heaters or cook tops, whose responsibility for fixed costs is subsidized by larger use customers pursuant to the existing rate design.

APPENDIX II

FIELD AUDIT PHOTOGRAPHS

Vectren Energy Delivery of Ohio
List of Assets as Requested by Audit Group

Asset ID	Asset Description	Plant Acct.	In-Service	Location	Tax District	Original Investment
361682	Land for New Operation Center	689.1	April-04	Washington Courthouse	0215-Fayette/Washington Courthouse	\$ 66,880.78
365102	Regulator	678	November-06	Versailles, R-5 Station	0184-Darke/Versailles Corp.	\$ 202.90
366186	Building	678	December-06	Fairborn T-34 Reg Sta.	0229-Greene/Fairborn Corp.	\$ 3,547.79
366472	Regulator	678	December-06	Russell Points, R-040	0332-Logan/Russell Point Corp.	\$ 6,037.61
366473	Relief Valve	678	December-06	Russell Points, R-040	0332-Logan/Russell Point Corp.	\$ 596.12
366486	Regulator	678	September-06	Troy, R-15 Station	0559-Shelby/Sidney Corp.	\$ 7,594.81
155959	Land	604.1	July-60	Bellbrook Propane	0223-Greene/Bellbrook Corp.	\$ 18,475.39
156059	Land	604.1	July-60	Yankee Propane	0438-Montgomery/Washington Twp.	\$ 6,585.98
156202	Land	604.1	July-73	Derby Propane	0422-Montgomery/Jefferson Twp.	\$ 5,839.04
CCNC	Pig Receiver	669	August-07	A-80 Line-Centerville Reg. Sta.	0438-Montgomery/Washington Twp.	\$ 171,975.03
CCNC	Pig Launcher	669	August-07	A-80 Line-Lebanon Reg. Sta.	0438-Montgomery/Washington Twp.	\$ 171,975.03
364971	Land	674.1	January-05	Centerville - Steel Station	0415-Montgomery/Dayton Corp.	\$ 16,046.01
346242	Auger Drive Unit MT60	696	February-04	Troy	0401-Miami/Troy Corp.	\$ 12,815.84
366134	Snow Plow	696	December-06	Fairborn	0229-Greene/Fairborn Corp.	\$ 4,022.84
346240	316 Excavator & Trenching Bucket	696	February-04	Fairborn	0222-Greene/Beaver Creek Corp.	\$ 16,351.80
155656-	Centerville Service Center	690	January-84	Centerville	0413-Montgomery/Centerville Corp.	\$ 1,280,608.77
155702	AND R SERVICE					

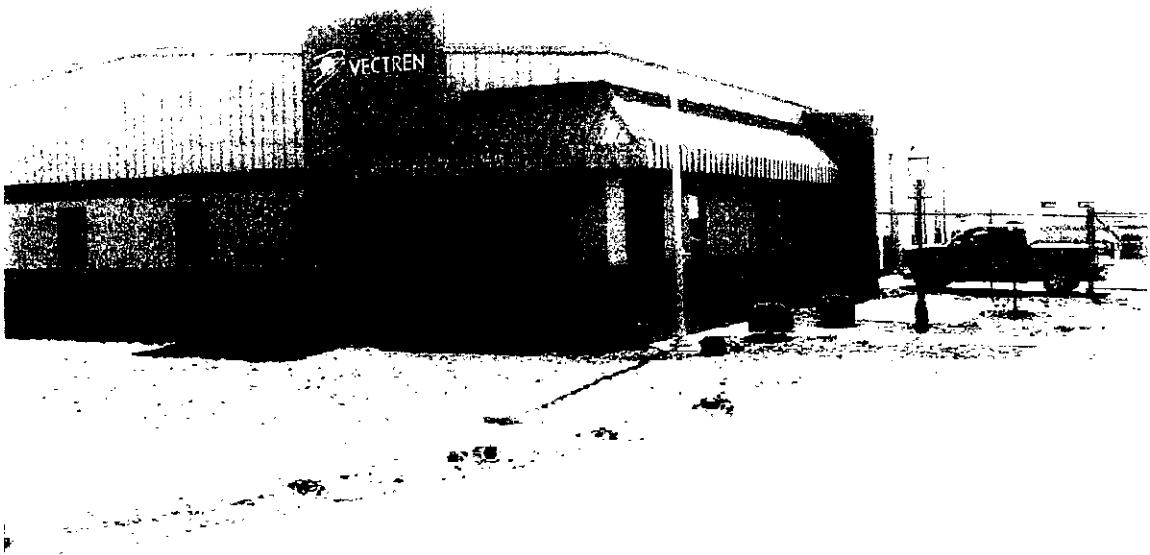
Asset ID—361682 Description—Land for Operation Center

Location—Washington Court House

Account #—689.1

In-Service—April, 2004

Original Cost—\$68,880.78



Asset *ID*—366102 Description—Regulator

Location—Versailles, R-5 Station

Account #—678

In-Service—November, 2006

Original Cost-\$202.90



Asset ID— 366472

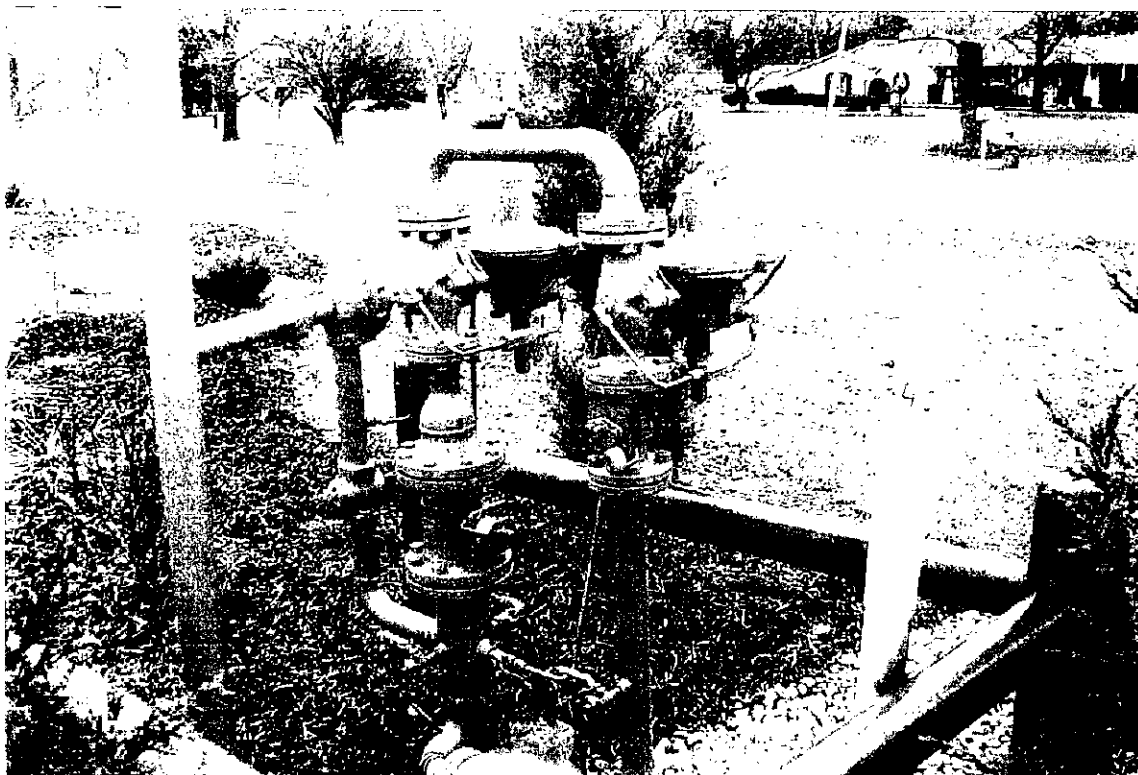
Description—Regulator

Location—Russell Points, R-040

Account #—678

In-Service—December, 2006

Original Cost-\$6037.61



Asset ID— 366472

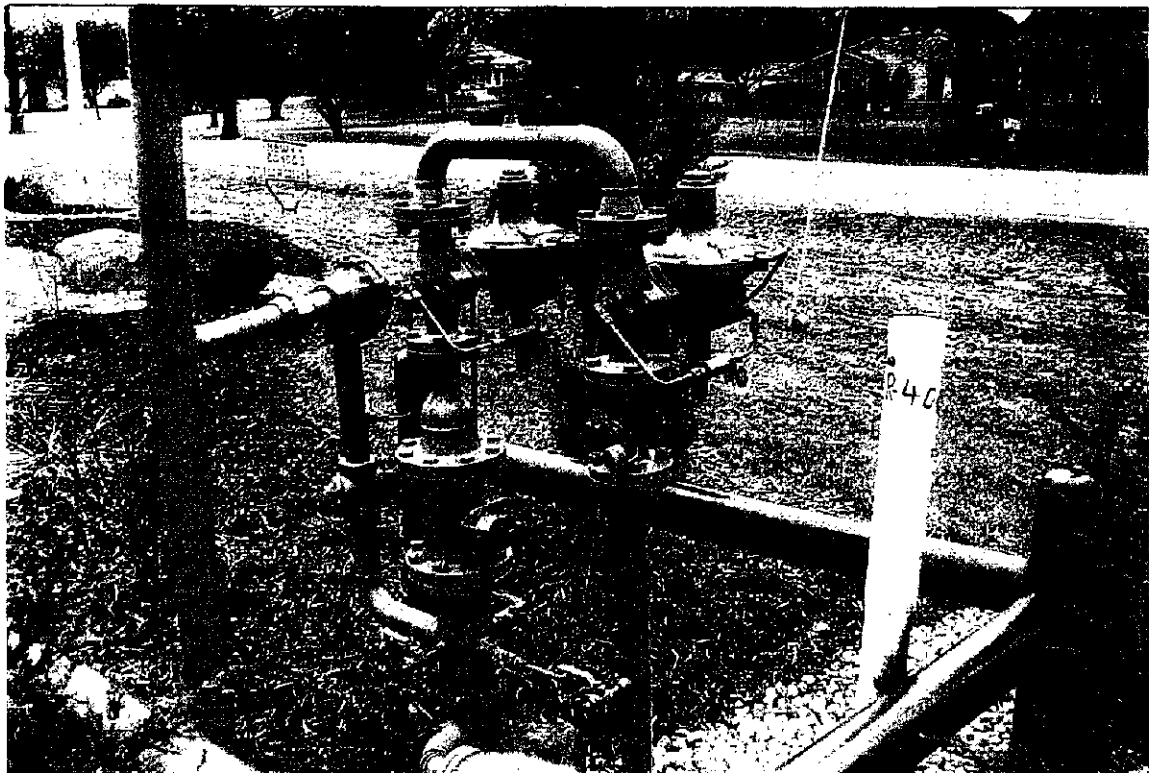
Description—Regulator

Location—Russell Points, R-040

Account #—678

In-Service—December, 2006

Original Cost-\$6037.61



Asset ID— 366473

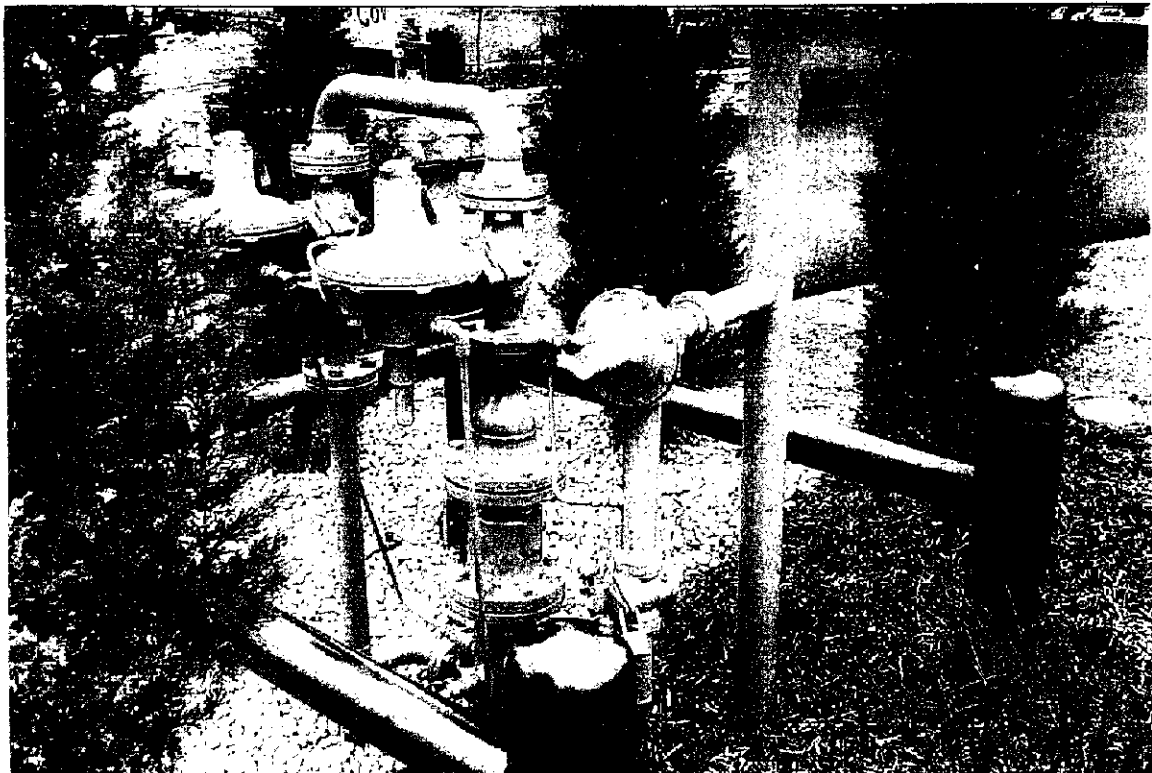
Description— Relief Valve

Location—Russell Points, R-040

Account #—678

In-Service—December, 2006

Original Cost-\$596.12



Asset ID— 366488

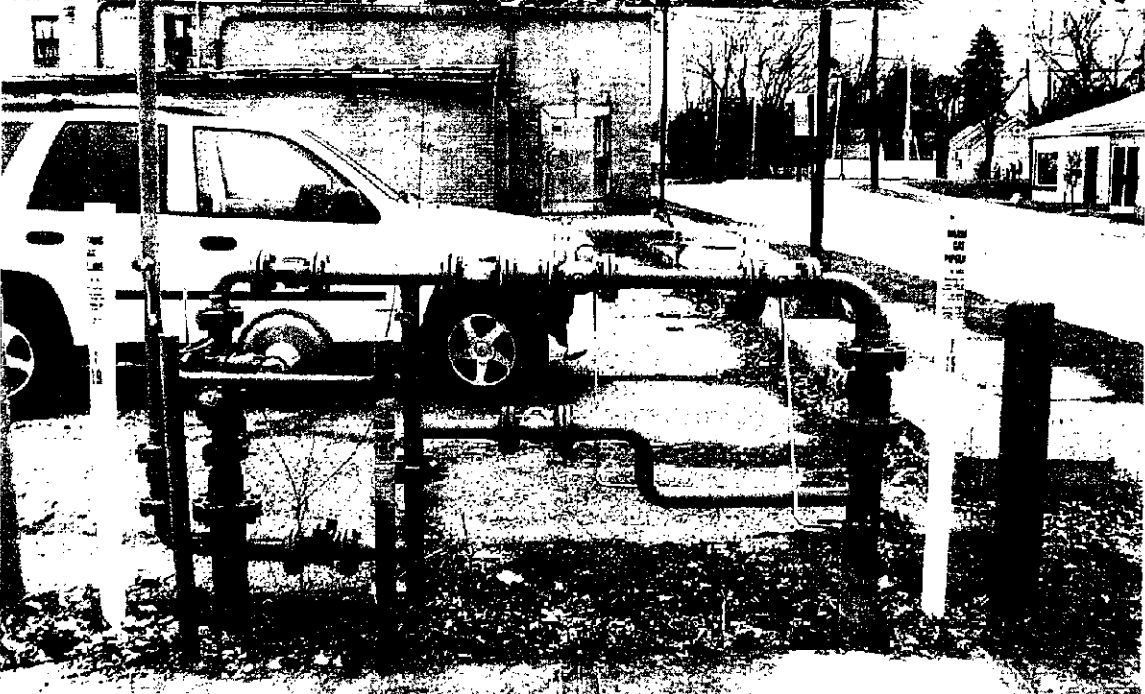
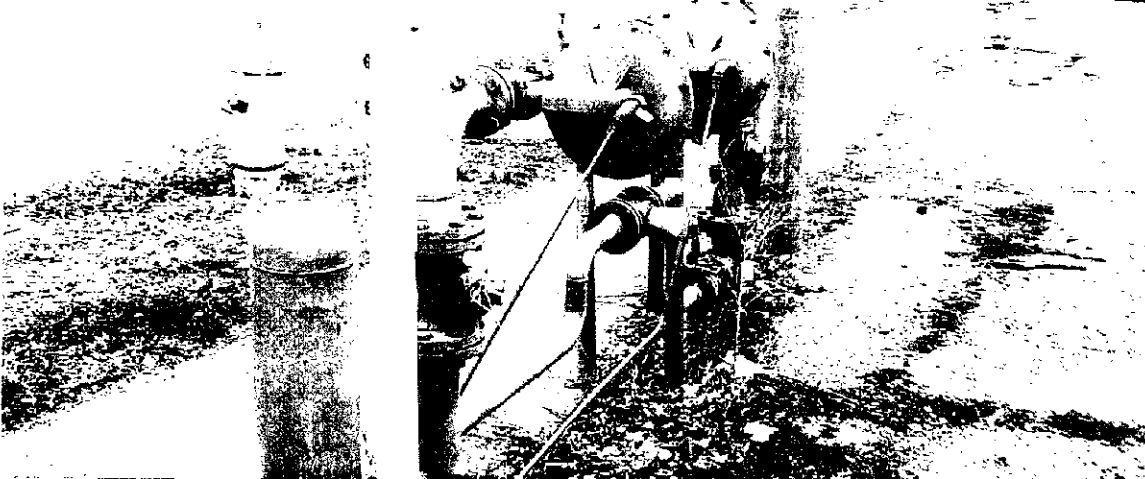
Description— Regulator

Location—Troy, R-15 Station

Account #—678

In-Service—September, 2006

Original Cost-\$7594.81



Asset ID—155959

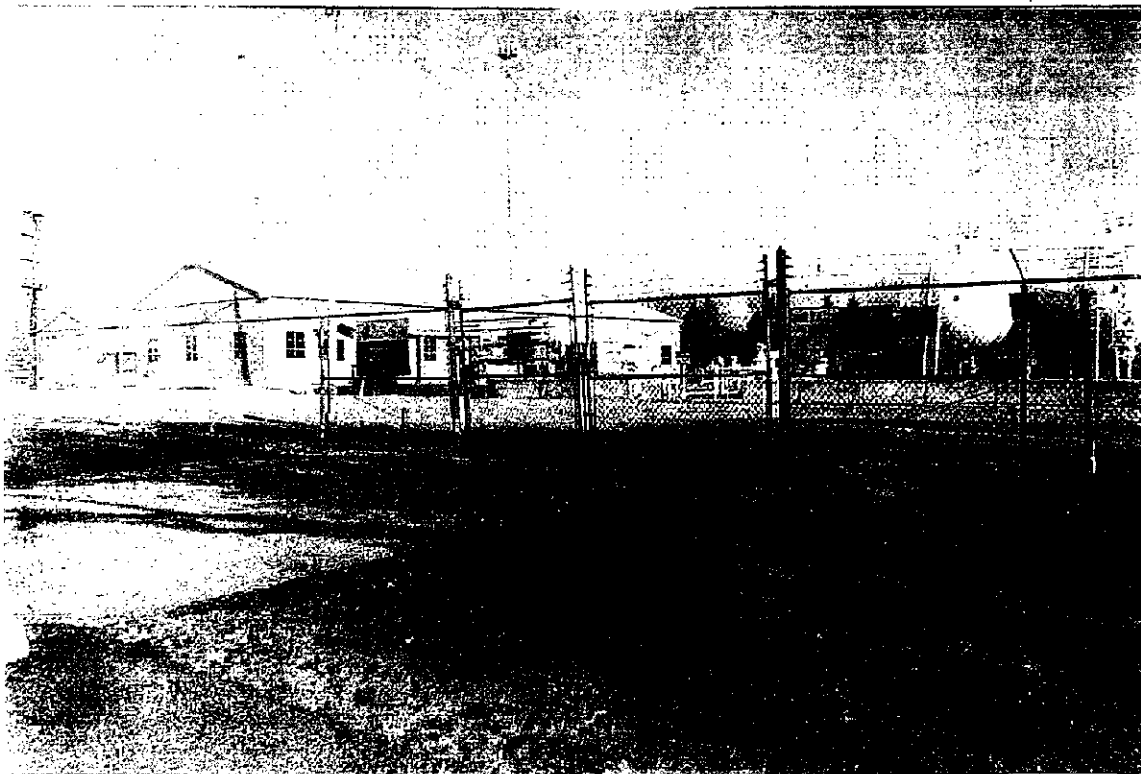
Description—Land

Location—Bellbrook Propane

Account #—604.1

In-Service—July, 1960

Original Cost—\$18,475.39



Asset ID—156059

Description— Land

Location—Yankee Propane

Account #—604.1

In-Service—July, 1960

Original Cost-\$6585.98



Asset ID—156202

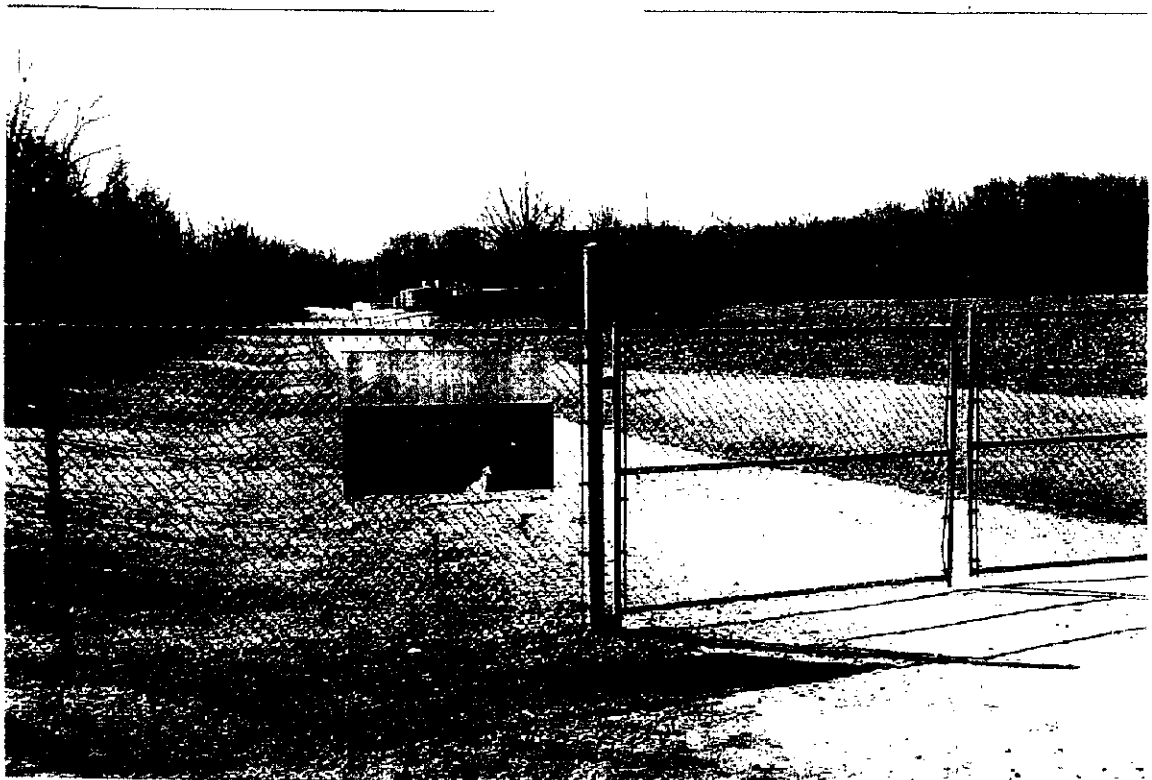
Description— Land

Location—Derby Propane

Account #—604.1

In-Service—July, 1973

Original Cost-\$5839.04



Asset ID—CCNC (106)

Description—Pig Receiver

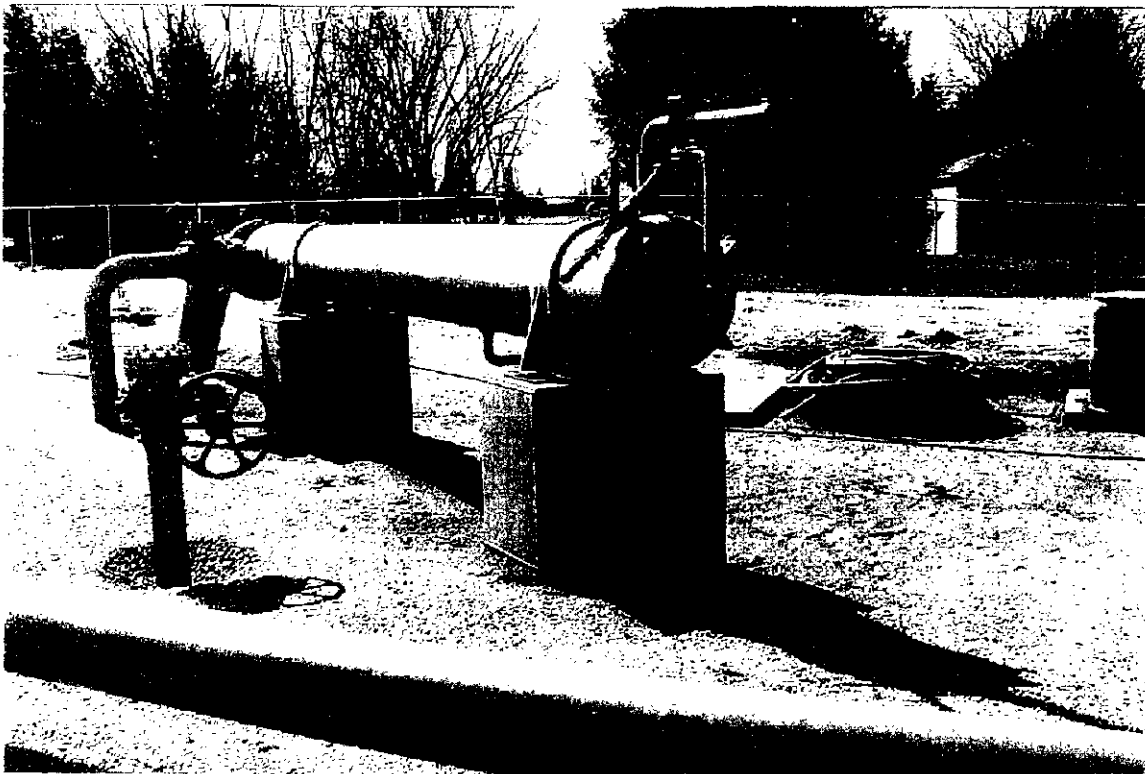
Location—A-80 Line-Centerville Reg. Sta.

Account #—669

In-Service—August, 2007

Original Cost-\$171,975.03

Comments—The dollars for this unit of property are currently recorded in “Completed Construction Not Classified—Account 106”. The original cost shown above may change after the work order is finally reconciled and unitized.



Asset ID—CCNC (106)

Description—Pig Launcher.

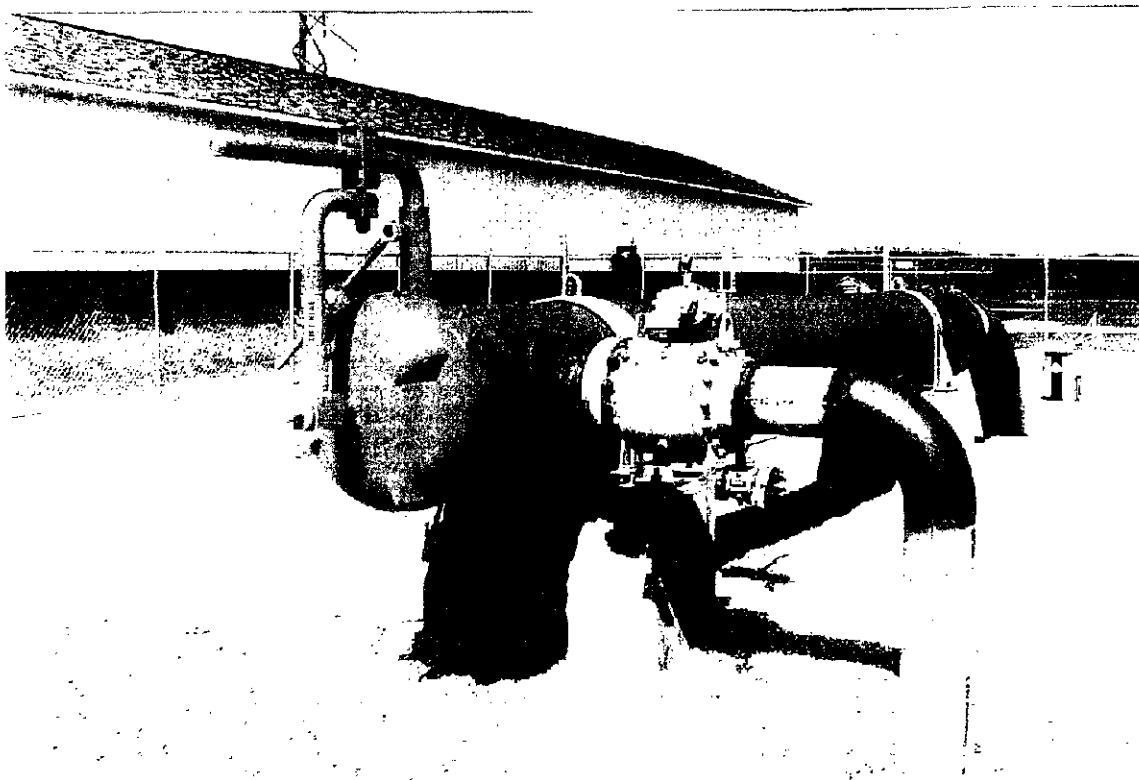
Location— A-80 Line-Lebanon Reg.Sta.

Account #—669

In-Service—August, 2007

Original Cost—\$171,975.03

Comments—The dollars for this unit of property are currently recorded in “Completed Construction Not Classified—Account 106”. The original cost shown above may change after the work order dollars are finally reconciled and unitized.



Asset ID—364971

Description—Land

Location—Centerville-Steel St. Station

Account #—674.1

In-Service—January, 2005

Original Cost—\$16,046.01

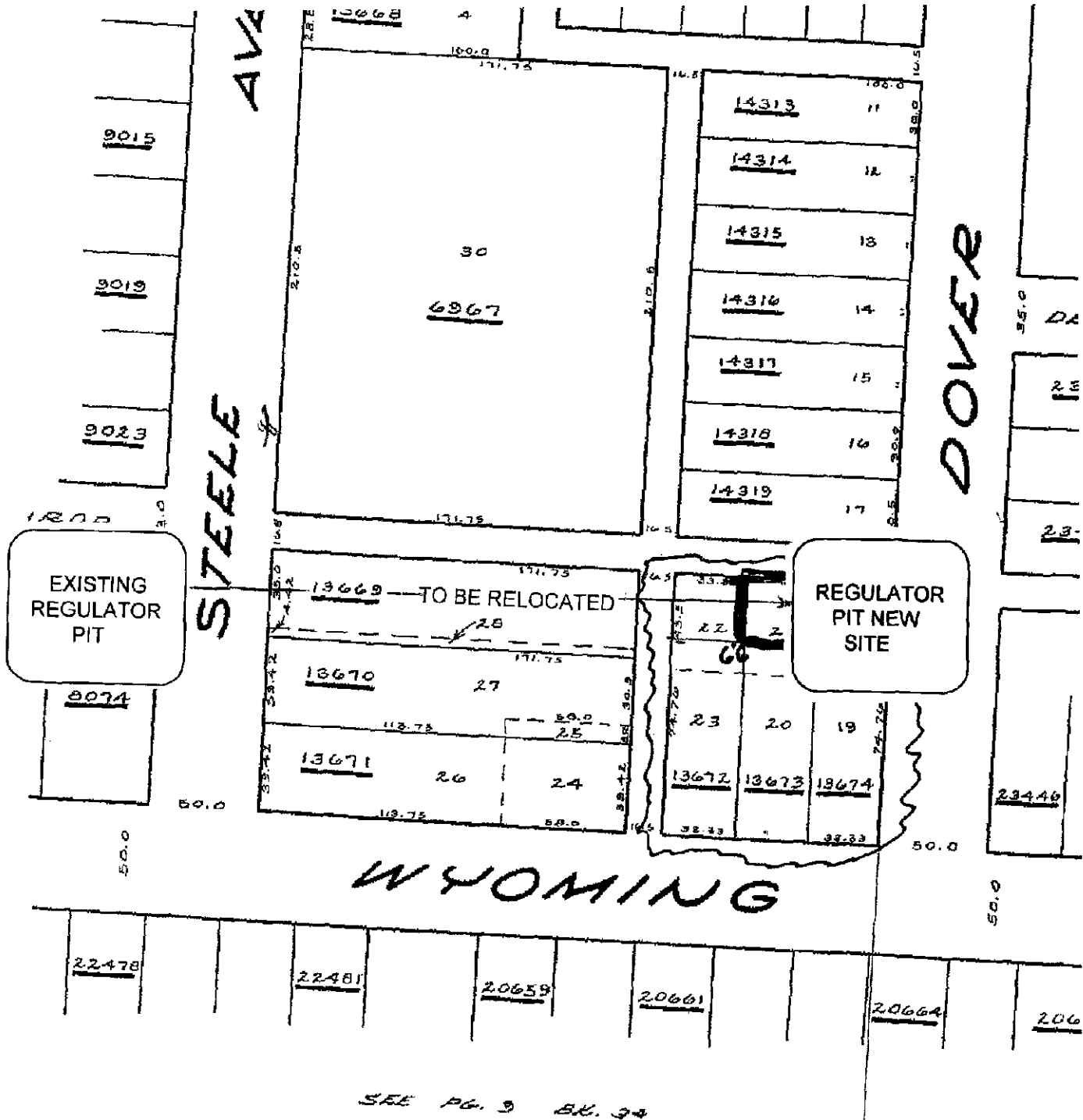
Comments—Land obtained in January, 2005 to be used for gas regulator installation.



Montgomery County Karl L. Keith, Auditor

Parcel Number: R72-025-10-0021
Owner Name: CHURCH BAPTIST

Location: 0
Improvement Value: 0 Land Value: 0
Class: E/O Recorder's Fiche: 72-622-A12



ID—346242

Description—Auger Drive Unit MT50

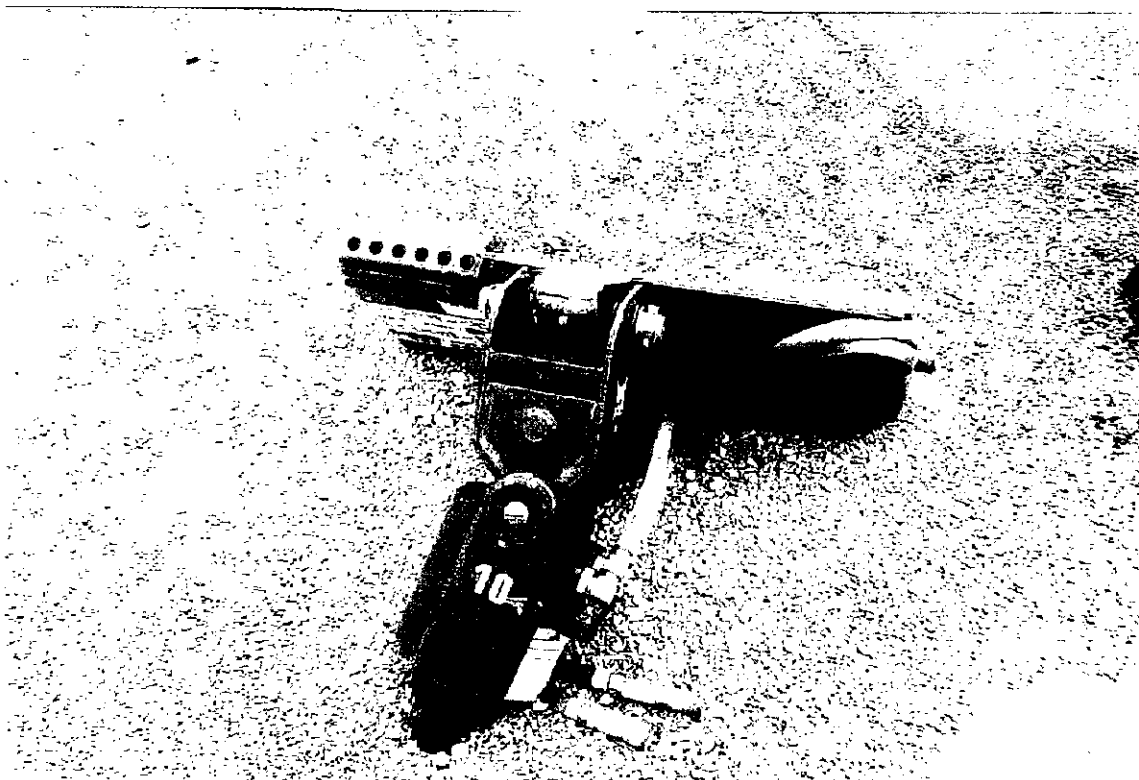
Location—Troy

Account #—696

In-Service—February, 200 4

Original Cost—\$12,815.84

Comments—This asset was moved from Troy, Ohio and located at located the Bellefontaine, Ohio Building.



Asset ID—366134

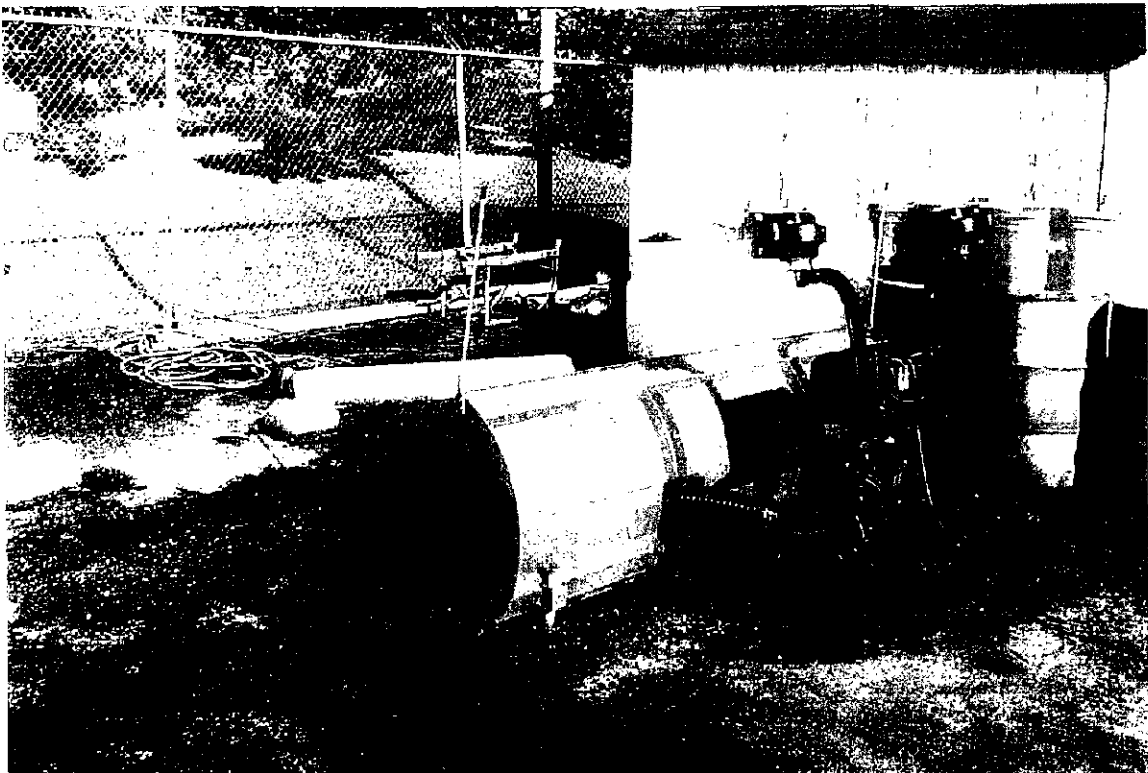
Description—Snow Plow

Location—Fairborn Operating Center

Account #—696

In-Service—December, 2006

Original Cost-\$4022.84



Asset ID—346240

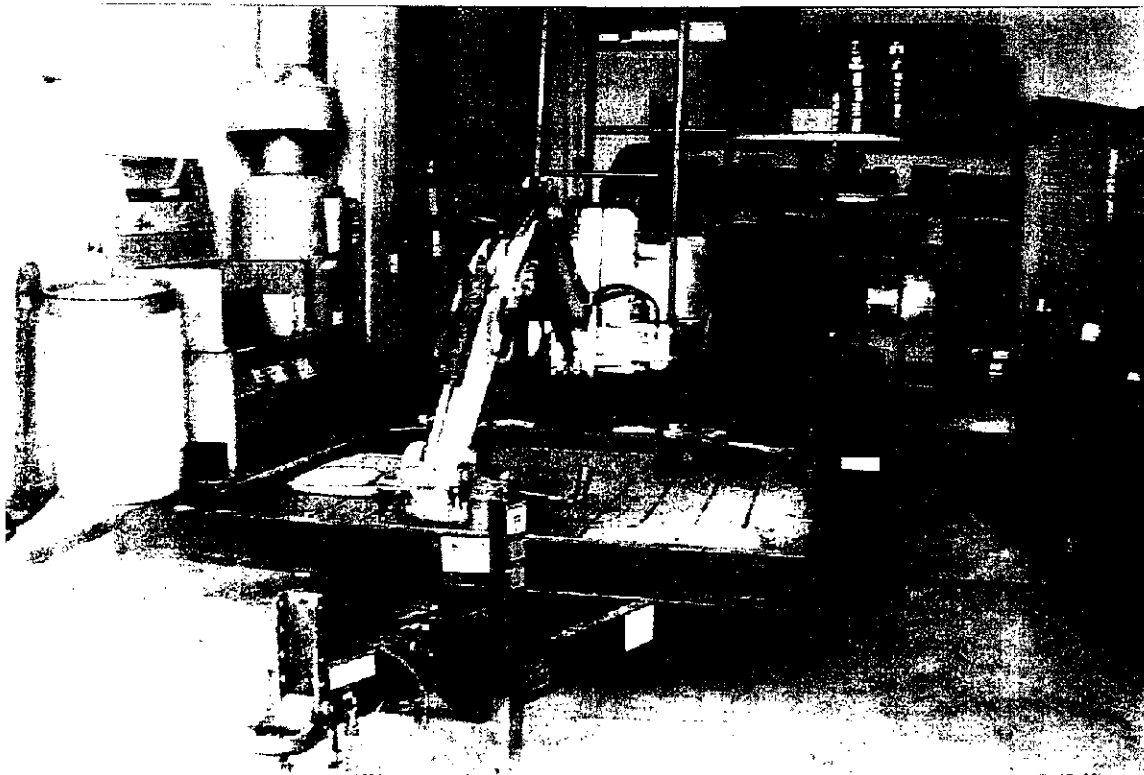
Description—316 Excavator & Trenching Bucket

Location—Fairborn Operating Center

Account #—696

In-Service—February, 2004

Original Cost--\$16,351.80



Asset ID—155656

Description—Centerville Service Center Building

Location—Centerville, Ohio

Account #—690

In-Service—January, 1984

Original Cost—\$1,290,609.77



Asset ID—155702

Description—Automated Meter Reading Device (AMR)

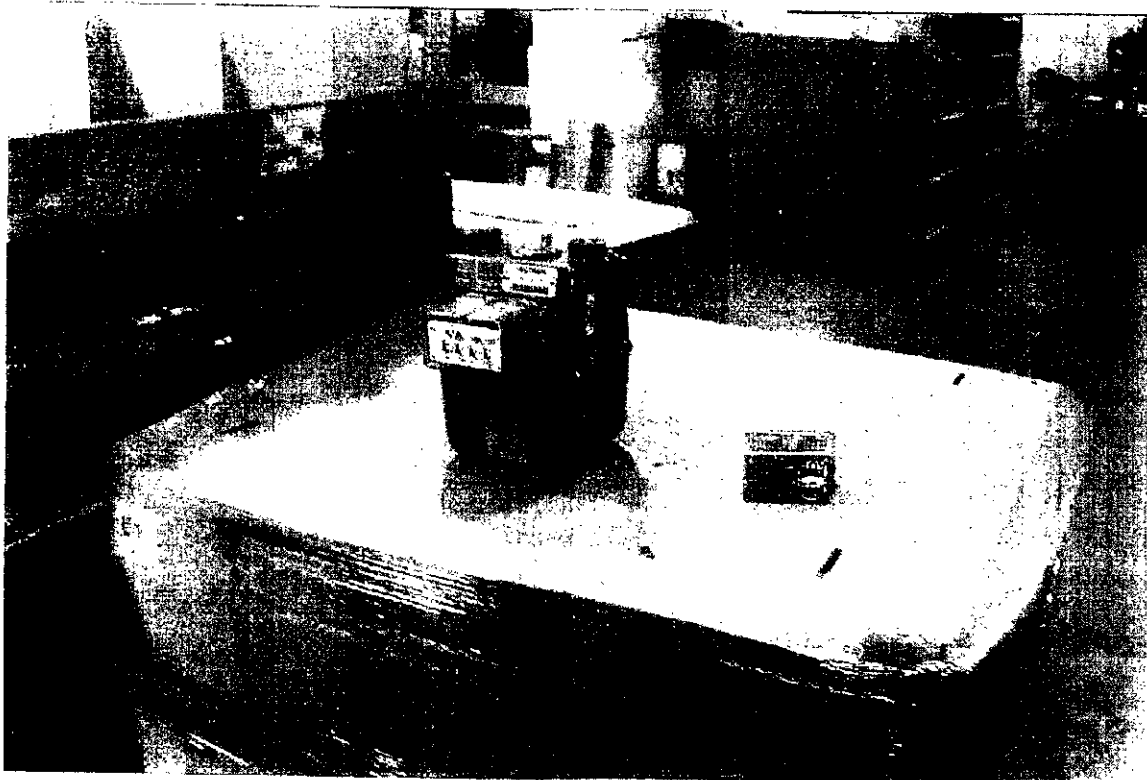
Location—Centerville Service Center

Account #--697

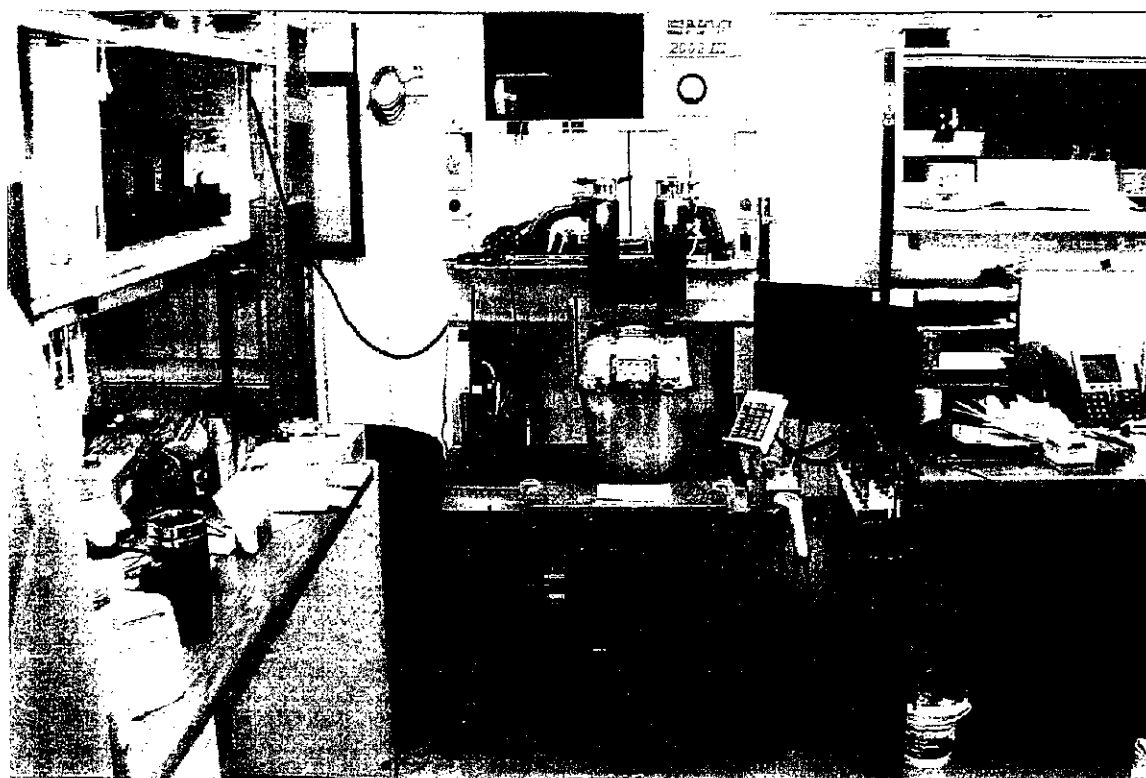
In-Service— N/A

Original Cost N/A

Comments-These devices are additions to General Plant recorded in Communication Equipment Account #697 and are being used in the Automated Meter Reading Device Program (AMR). The photograph below shows a device installed on a gas meter and a device standing alone.



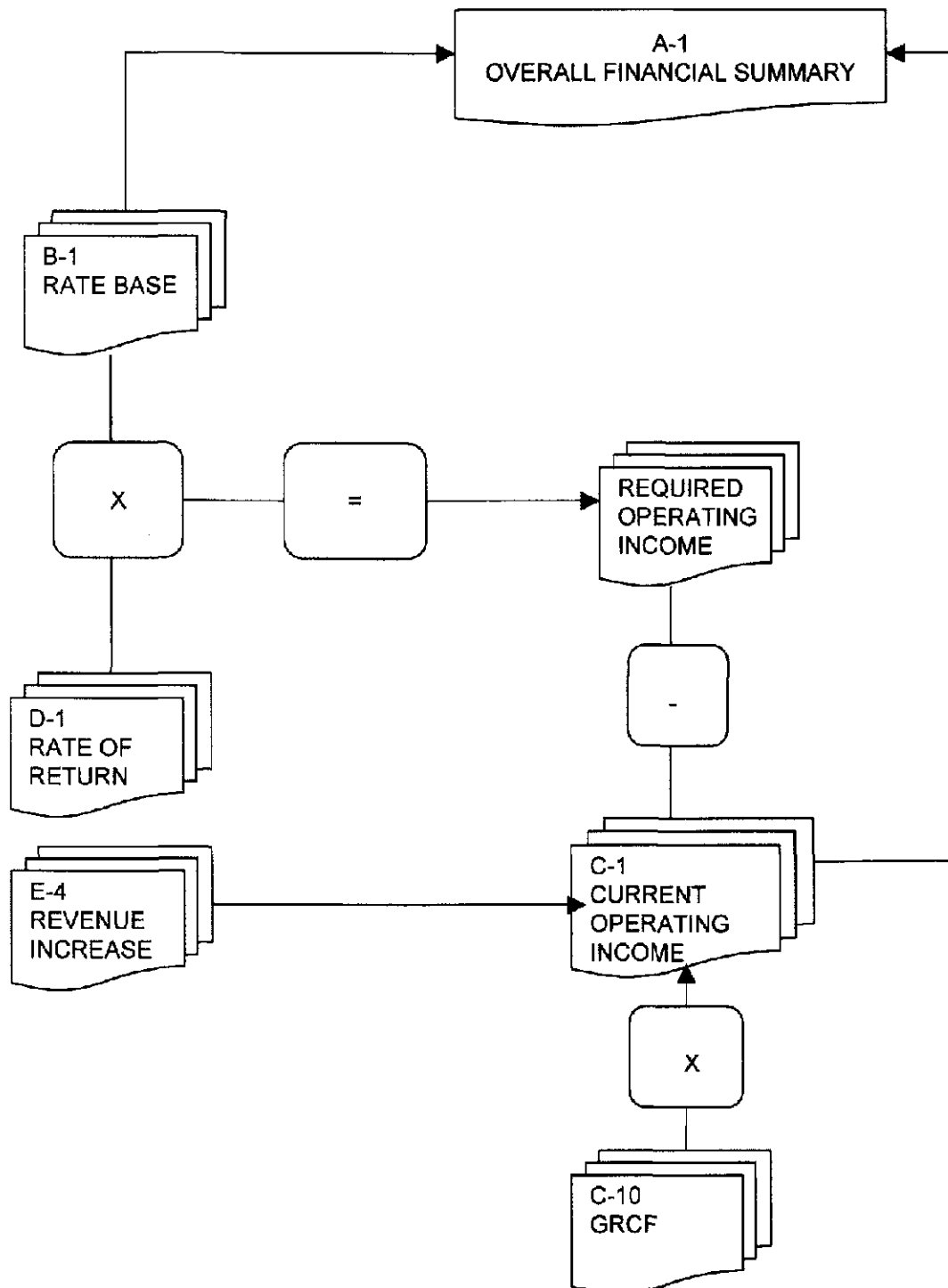
While visiting the Fairborn Operating Center, Mr. Berry explained that an employee and meter testing equipment were part of DP&L prior to the Company acquiring its gas service business. The Company moved the employee who does the testing and the meter testing equipment to the Fairborn Operating Center. Meter testing for VEDO is done at this location. Meter repair is done in Indianapolis, Indiana. A photograph of the meter testing equipment is shown below.



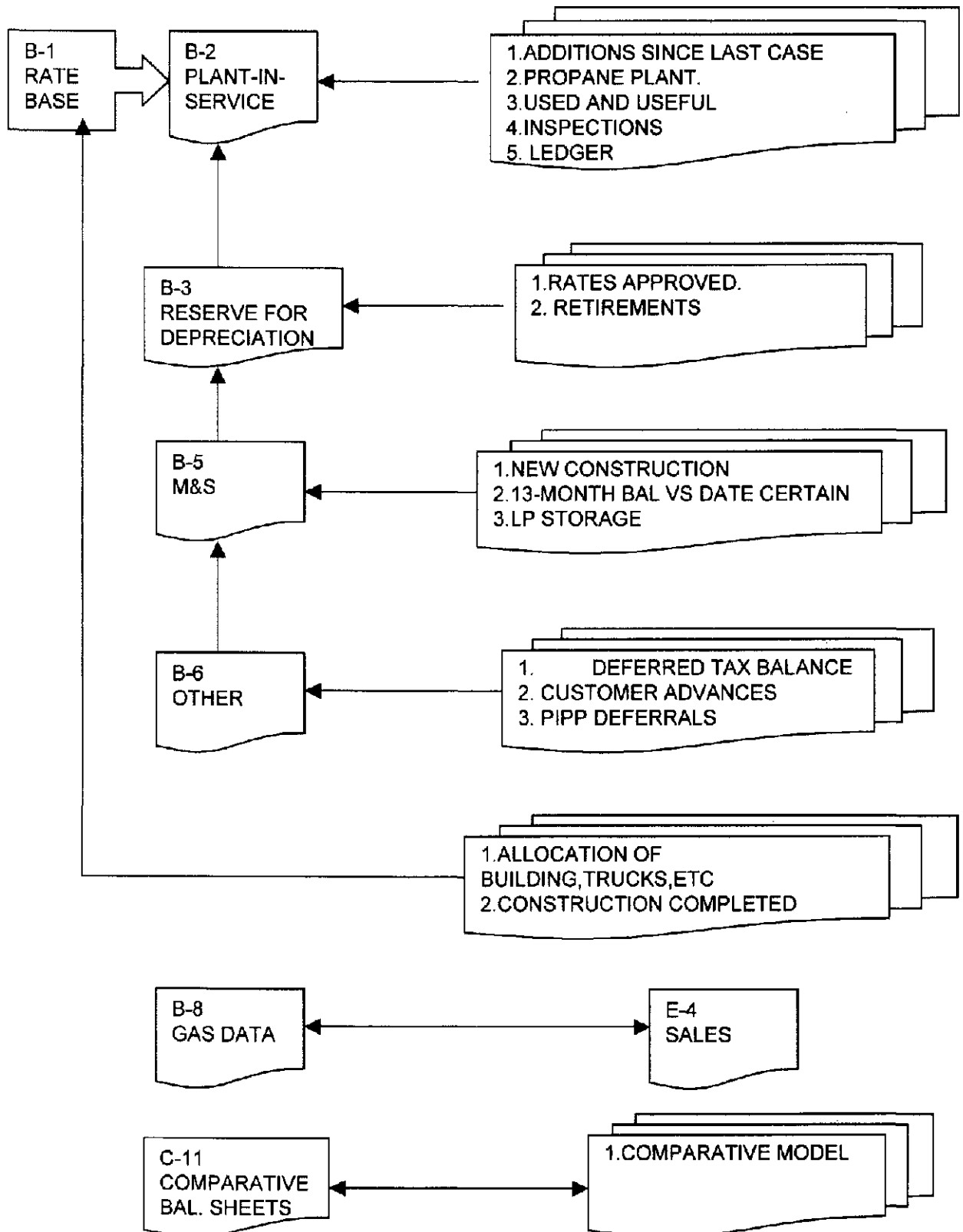
APPENDIX III

AUDIT WORK PLAN

VECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR
AUDIT PLAN
DATE CERTAIN = AUGUST 31, 2007
TEST PERIOD = 12 MONTHS ENDED MAY 31, 2008



VECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR
RATE BASE AUDIT
DATE CERTAIN: AUGUST 31, 2007

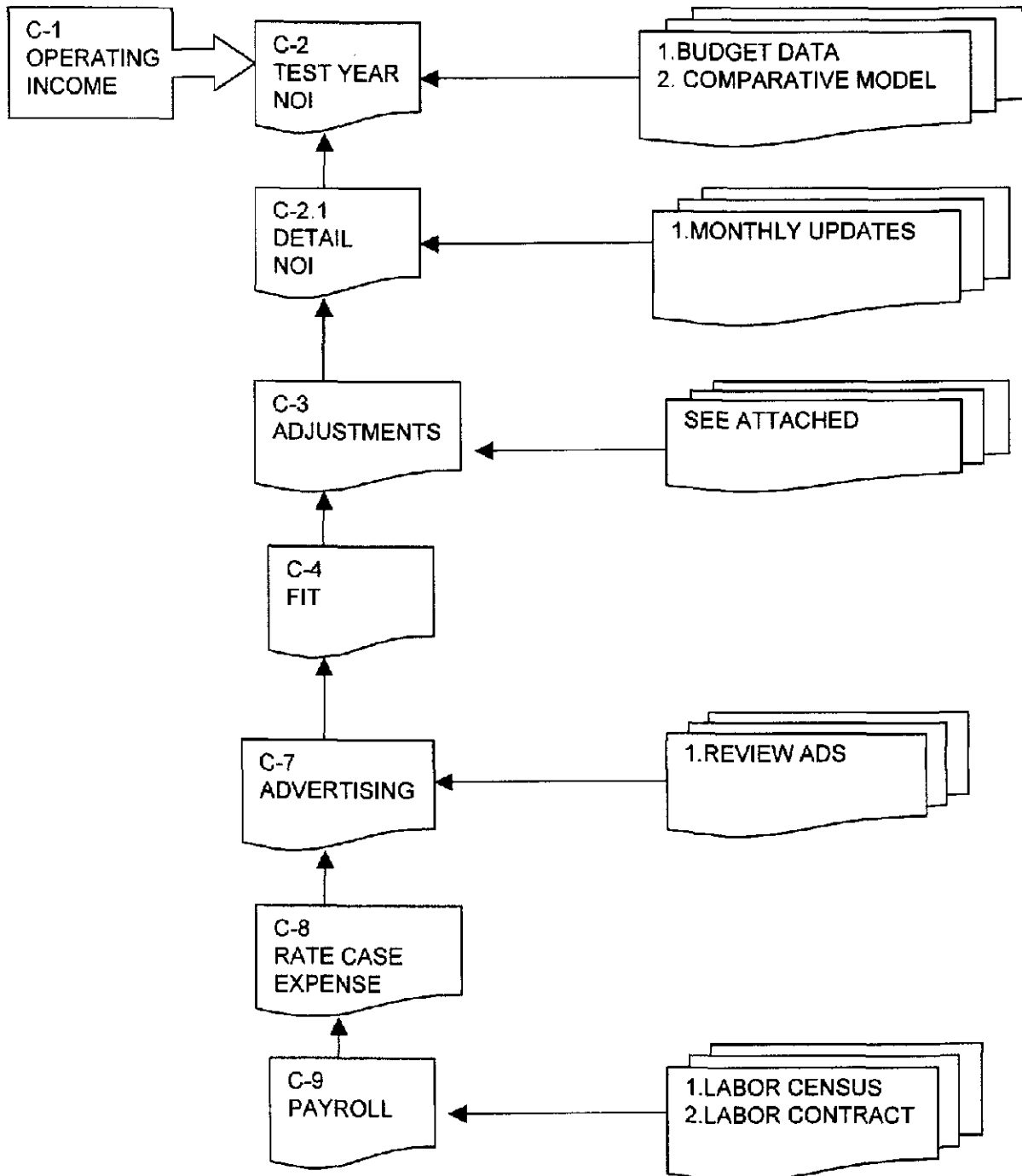


VESTREN ENERGY DELIVERY OF OHIO

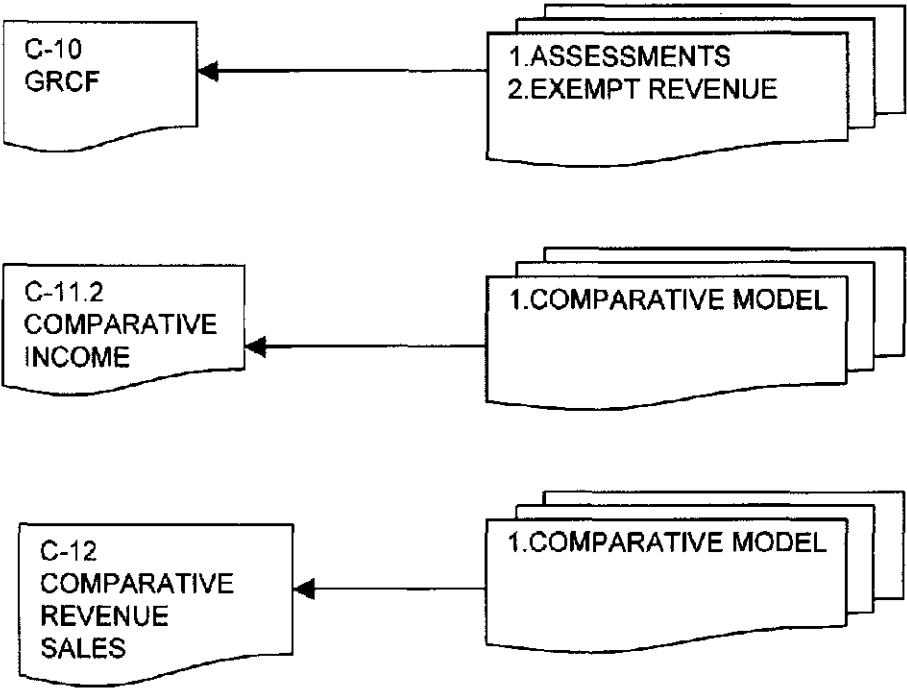
CASE NO. 07-1080-GA-AIR

OPERATING INCOME AUDIT

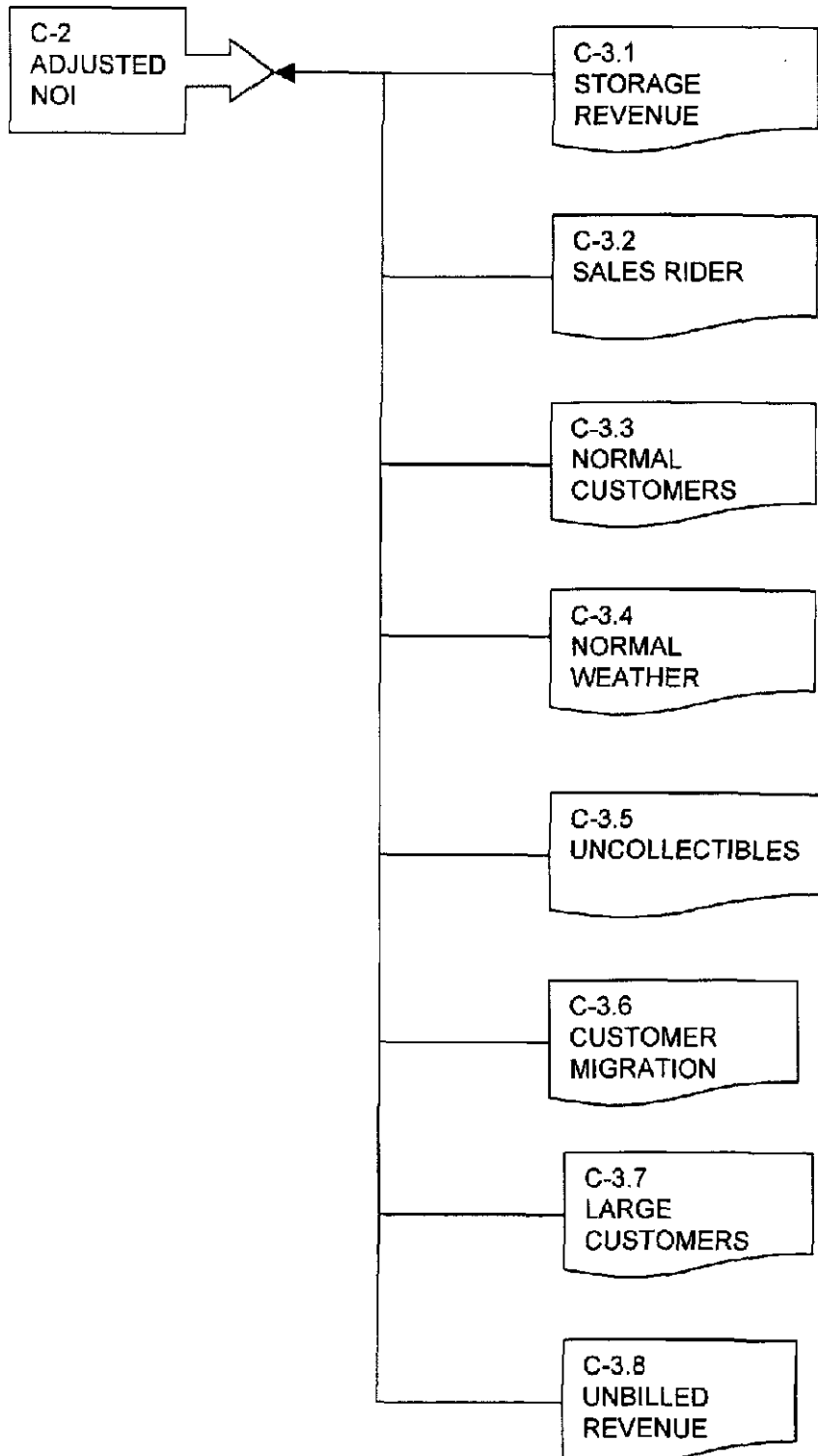
TEST YEAR: JUNE - AUGUST 2007, ACTUAL; SEPTEMBER 2007 -MAY 2008, BUDGET



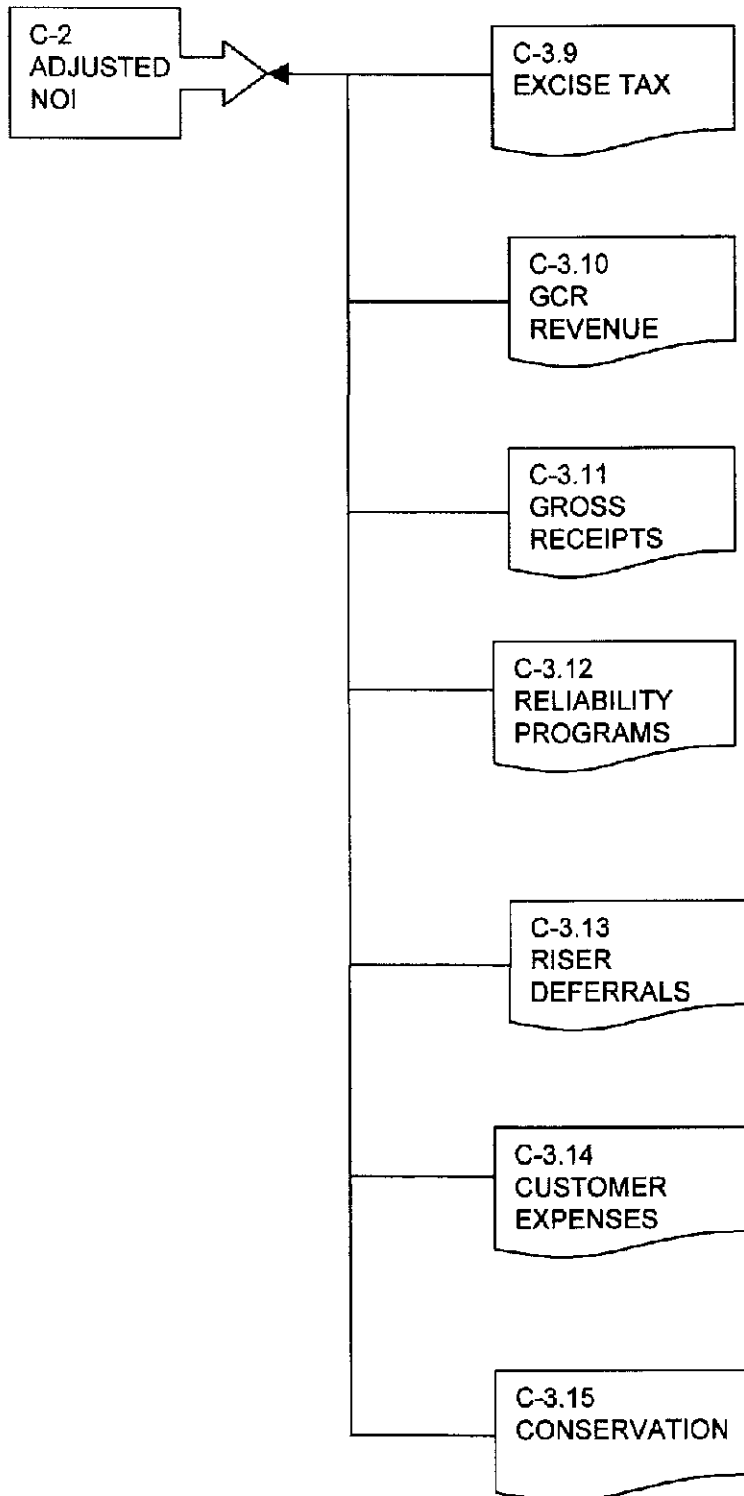
OPERATING INCOME AUDIT (CONTINUED)



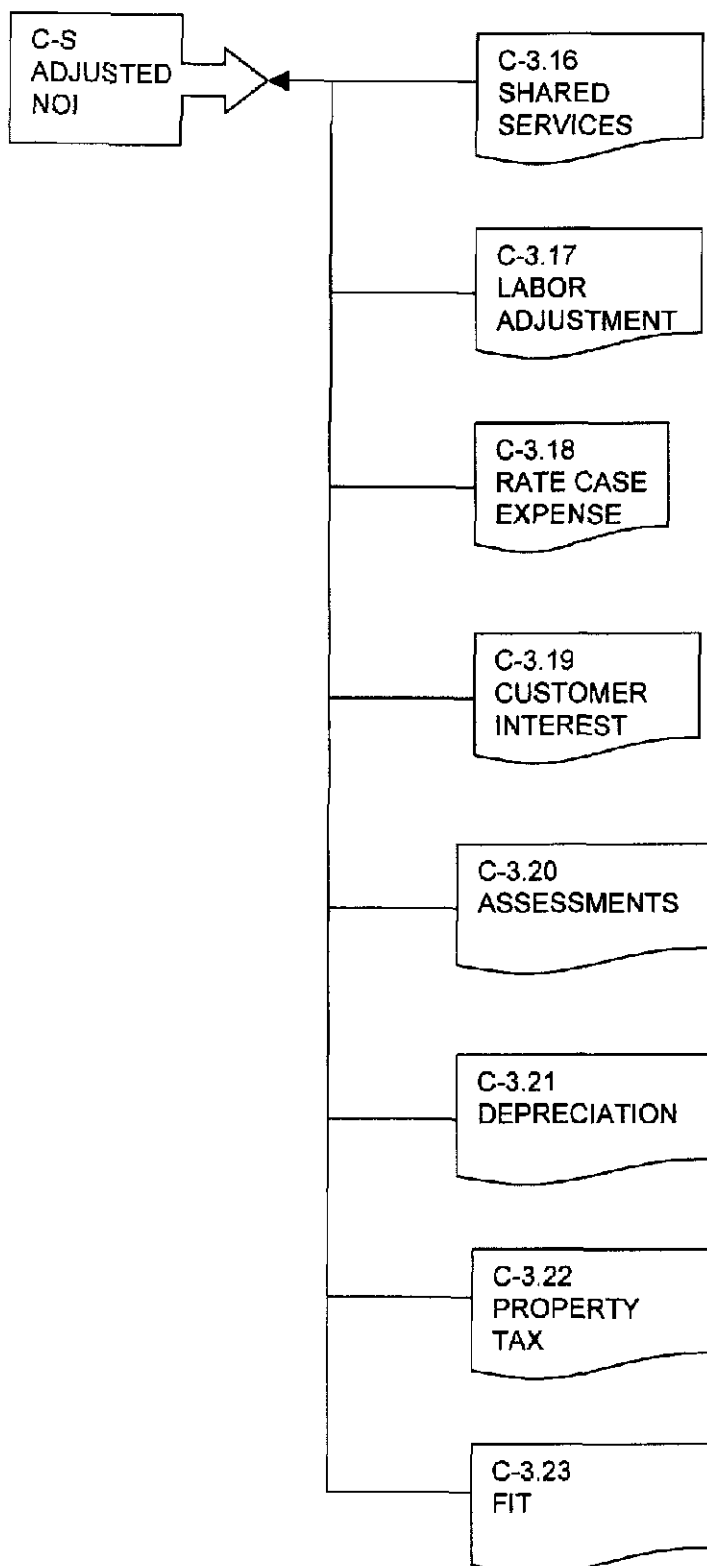
VECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR
OPERATING INCOME AUDIT
ADJUSTMENTS



ADJUSTMENTS (CONTINUED)



ADJUSTMENTS (CONTINUED)



VECTREN ENERGY DELIVERY OF OHIO
CASE NO. 07-1080-GA-AIR
REVENUE SUMMARY AUDIT
TEST YEAR = 12 MONTHS ENDED MAY 31, 2008

