

FILE

114
RECEIVED-DOCKETING DIV

2009 MAR 27 PM 3:09

PUCO

REPORT TO THE
PUBLIC UTILITIES COMMISSION OF OHIO
ON THE
MANAGEMENT AND PERFORMANCE AUDIT
OF GAS PURCHASING PRACTICES AND POLICIES OF
VECTREN ENERGY DELIVERY OF OHIO, INC.
CASE NO. 08-220-GA-GCR

MARCH 2009

PREPARED BY:

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.
Technician SM Date Processed MAR 27 2009

EXETER

ASSOCIATES, INC.

5565 Sterrett Place

Suite 310

Columbia, Maryland 21044

TABLE OF CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	iv
1. INTRODUCTION.....	1-1
1.1 Vectren Energy Delivery of Ohio and Corporate Affiliations.....	1-2
1.2 Structure of Audit Report.....	1-4
2. COMPANY BACKGROUND DESCRIPTION AND OVERVIEW	2-1
2.1 System Configuration.....	2-1
2.2 Markets Served by VEDO.....	2-4
3. MANAGEMENT AND ORGANIZATION.....	3-1
3.1 Gas Supply Group	3-1
3.2 Gas System Operations and Other Groups Assisting Gas Supply.....	3-3
3.3 Affiliates Engaged in the Sale of Gas in Ohio	3-5
3.4 Internal Audit.....	3-7
3.5 FERC Participation.....	3-8
3.6 Conclusions and Recommendations.....	3-9
3.6.1 Organizational Structure	3-9
3.6.2 Internal Audit of Gas Supply Process Profiles	3-10
4. GAS RESOURCE PLANNING	4-1
4.1 Overview and Summary of Audit Period Capacity Gas Supply Arrangements	4-2
4.2 Detail of Audit Period Capacity Arrangements	4-6
4.2.1 Firm Transportation Service	4-6
4.2.2 Storage Service	4-13
4.2.3 Gas Supply Arrangements.....	4-17
4.2.4 Asset Management Agreements	4-20
4.3 Balance of Capacity Resources and Customer Requirements	4-21
4.3.1 Design Peak Day.....	4-21
4.3.2 Winter Season Capacity Resources and Requirements	4-24
4.3.3 Annual Capacity Resources and Requirements	4-24
4.4 Exit of Merchant Function	4-25
4.5 Conclusions and Recommendations.....	4-27
4.5.1 Capacity Portfolio	4-27
4.5.2 Asset Management Agreement	4-27
4.5.3 Design Peak Day Forecasting – GCR Customers	4-28
4.5.4 Design Peak Day Forecasting – Choice Customers.....	4-29
4.5.5 Design Peak Day Planning Criteria	4-29
4.5.6 Future Capacity Acquisitions	4-30
4.5.7 Propane Facility Expansion	4-30

TABLE OF CONTENTS (CONTINUED)

	<u>PAGE</u>
5. AUDIT PERIOD CAPACITY UTILIZATION AND PROCUREMENT ACTIVITY	5-1
5.1 Summary of Purchases and Sales	5-1
5.2 Gas Price Locational Differentials	5-3
5.3 Procurement Strategy and Capacity Utilization	5-6
5.4 Peak Day Requirements and Supplies	5-8
5.5 Commodity Purchases and Hedging Activities	5-8
5.6 Storage Operations	5-11
5.7 Capacity Release and Off-System Sales Activity	5-14
5.8 Lost and Unaccounted-For Gas and Company Use Gas	5-14
5.9 Conclusions and Recommendations	5-17
5.9.1 Audit Period Procurement Strategy	5-17
5.9.2 Late Winter Peaking Criterion	5-17
6. TRANSPORTATION SERVICE	6-1
6.1 Choice Transportation Program	6-4
6.1.1 Background and Participation	6-4
6.1.2 Service Terms and Conditions	6-4
6.1.3 Imbalances and Volume Reconciliation	6-8
6.2 Traditional Large Transportation Service	6-11
6.2.1 Background and Participation	6-11
6.2.2 Service Terms and Conditions	6-11
6.2.3 Imbalances	6-18
6.3 Conclusions and Recommendations	6-20
6.3.1 Choice Transportation Service	6-20
6.3.2 Traditional Transportation Service	6-20

LIST OF TABLES

		<u>PAGE</u>
2.1	Select Operating Statistics.....	2-6
4.1	Summary of Firm Capacity Contract Quantities.....	4-5
4.2	Summary of Firm Maximum Daily Quantity Contract Changes.....	4-7
4.3	Design Peak Day Weather Criteria.....	4-22
4.4	Comparison of Total Projected and Actual Peak Day Requirements.....	4-23
4.5	Comparison of GCR Design Peak Day Requirements and Capacity Resources.....	4-24
5.1	Summary of Audit Period Purchases by Source.....	5-2
5.2	Summary of Audit Period Sales Volumes.....	5-4
5.3	Comparison of Locational Gas Price Differentials.....	5-5
5.4	Pipeline Capacity Utilization.....	5-7
5.5	Summary of Actual Peak Day Requirements and Supplies.....	5-9
5.6	Summary of Audit Period Purchases by Type.....	5-10
5.7	Summary of Audit Period Storage Activity.....	5-12
5.8	Lost and Unaccounted-for Gas.....	5-16
5.9	Company Use.....	5-16
6.1	Summary of Audit Period Transportation Activity.....	6-2
6.2	Summary of Audit Period Transportation Customer Deliveries by Pipeline	6-3
6.3	Summary of Audit Period Choice Imbalances.....	6-9
6.4	Summary of Audit Period Traditional Transportation Customer Imbalances	6-19

LIST OF FIGURES

		<u>PAGE</u>
1.1	Vectren Corporation Corporate Structure	1-5
2.1	System Map.....	2-3
3.1	Organizational Structure VUHI Regulatory Affairs and Fuels	3-2
3.2	Organizational Structure VUHI Gas System Operations.....	3-4
Appendix A	Index of General Audit Requirements	
Appendix B	Index of Company-Specific Audit Requirements	
Appendix C	Monthly Audit Period Purchase Gas Billing Determinants, Rates and Costs	

EXECUTIVE SUMMARY

Exeter Associates, Inc. ("Exeter") has reviewed the gas purchasing practices and gas management policies of the Vectren Energy Delivery of Ohio ("VEDO" or "the Company"), for the November 2005 through September 2008 audit period. Exeter has found that VEDO's audit period gas purchasing policies and practices were reasonable, conducted in a manner consistent with least cost acquisition principles and provided reliable service.

ES-1. Organizational Structure

Our audit revealed no concerns with respect to the organizational structure of Vectren Corporation, Vectren Utility Holdings, Inc., Vectren Energy Delivery of Ohio, Inc., the Regulatory Affairs and Fuels Department or the Gas Supply Group which would interfere with the purchase of reliable supplies of gas at minimum prices. Our audit revealed no concerns with respect to the relationships between VEDO and its affiliates, Vectren Retail, LLC (d/b/a/ Vectren Source) and ProLiance Energy, LLC, which are also engaged in the sale of gas in Ohio.

ES-2. Internal Audit of Gas Supply Process Profiles

The prior management performance auditor (Case No. 04-220-GA-GCR) noted that an internal audit of the Gas Supply Group was performed in 2004. It was the prior auditor's opinion that the 2004 internal audit provided a very thorough and ample review of VEDO's gas supply function. The 2004 internal audit identified certain corrective actions to be taken by the Gas Supply Group. Those actions included addressing a perceived deficiency in documenting procedures performed by Gas Supply.

In 2005, an internal review was performed to verify that corrective action had been taken on the items identified in the 2004 internal audit. The prior auditor concluded that the 2005 review sufficiently covered the findings of the 2004 internal audit. However, due to the timing of the review, the prior auditor believed that there was

insufficient opportunity to follow-up on the procedure documentation deficiency cited in the 2004 internal audit.

A company-specific requirement of this audit is to examine VEDO's internal audit of its gas supply process profiles and procedures, focusing on document control. As part of our audit, we examined the Gas Supply Department Procedures Manual ("Manual") prepared in response to the 2004 internal audit and the 2005 review of the 2004 internal audit. This Manual details all of the main functions of the Gas Supply Group from daily, monthly and annual gas supply planning procedures to procurement to invoicing. The Manual contains detailed information on the personnel performing the procedures, the necessary information inputs, the source of the information and the time frame over which the procedure takes place. The Manual also includes a summary of each procedure identifying the controls, stakeholders and references. Our review indicates that VEDO has implemented the procedure document deficiency recommendations identified in the 2004 internal audit and 2005 review of the internal audit.

ES-3. Capacity Portfolio

VEDO engaged New Energy Associates, LLC ("NEA") to perform an interstate pipeline capacity planning and optimization study for its firm capacity portfolio in 2004. The NEA study assisted VEDO in reconfiguring its firm capacity portfolio with new services starting November 1, 2004 and April 1, 2005. The reconfigured capacity portfolio satisfied the forecasted design peak day, winter season and annual gas supply requirements of GCR customers while minimizing periods during which capacity was unutilized.

ES-4. Asset Management Agreement

Throughout the audit period, VEDO operated under three competitively determined asset management agreements ("AMA") with Sequent Energy Management, L.P. ("Sequent"). Under the AMAs, VEDO released all of its interstate pipeline capacity to Sequent, which managed and utilized the capacity to meet VEDO's gas supply requirements. Sequent was entitled to utilize any unutilized VEDO capacity

to pursue its own business interests. Each day VEDO determined the quantity of gas it would purchase from each of its suppliers by delivering pipeline and its storage injection and withdrawal activity ("economic dispatch"). VEDO was responsible for all of the pipeline reservation charges associated with the capacity released to Sequent, and for pipeline variable charges based on economic dispatch.

VEDO reported no concerns operating under the AMAs with Sequent, or with Sequent's management of VEDO's capacity. Under each AMA, VEDO was paid a monthly management fee by Sequent, 85 percent of which was subsequently credited to GCR customers. The fees were determined through a competitive RFP process, and exceeded the fee which was paid to VEDO under prior AMAs, which were not awarded through a competitive RFP process. Although VEDO's restructured capacity portfolio minimized the availability of unutilized capacity, all unutilized capacity was assigned to Sequent under the AMA, thereby maximizing the utilization of VEDO's capacity. The AMA provided a significant benefit to GCR customers.

ES-5. Design Peak Day Forecasting – GCR Customers

VEDO secured sufficient capacity resources to meet the forecasted design peak day requirements of its GCR customers during the audit period. To determine its capacity resource requirements, VEDO initially forecasts total system design peak day requirements utilizing a daily demand linear regression model. The model specifies daily demand as a function of independent variables which include temperature, wind speed, day of the week and adjustments for holidays. The forecasted design peak day requirements of transportation customers, including energy choice customers, are subtracted from total system requirements to determine the design peak day capacity requirements of GCR customers. Through a comparison of total system actual peak day requirements and forecasted requirements under actual weather conditions, our audit revealed that VEDO's model reasonably estimated total peak day requirements and, therefore, is likely to provide a reasonable estimate of design peak day requirements. Our audit further revealed that VEDO maintained a reasonable balance between the forecasted design peak day requirements of GCR customers and GCR capacity resources during the audit period.

ES-6. Design Peak Day Forecasting – Choice Customers

VEDO individually forecasts the design peak day requirements of the customers served by each choice supplier based on the actual historical monthly usage of the customers served by each supplier. This differs from the approach used to forecast GCR design peak day requirements, which relies on daily sendout information. This alternative approach to forecasting choice design day demands is necessary because daily information is not available for choice customers. It is also reasonable because the load characteristics of the customers served by each supplier may differ. A comparison of the daily forecasts prepared by VEDO for choice customers and the actual usage of choice customers on an annual basis reveals that VEDO's choice customer forecasts have been reasonable.

ES-7. Design Peak Day Planning Criteria

A company-specific requirement of this audit is to verify that VEDO has examined its design peak day criteria to determine the appropriateness of the criteria's applicability and values for use in the modeling of VEDO's design peak day sendout for gas supply planning purposes. Examination of VEDO's design peak day criteria was required by the Stipulation and Recommendation approved by the Commission in the Company's prior management performance audit.

Our audit revealed that VEDO has examined its design peak day criteria as required. As a result of its examination, VEDO slightly modified its design peak day criteria for the winter of 2007-2008, increasing the value of the prior day's temperature variable and reducing the value of the windspeed variable. These changes increased the probability of occurrence of VEDO's design peak day criteria. VEDO's analysis assigned a joint probability of the occurrence of its design peak day criteria to be 3 percent.

The 3 percent design peak day probability of occurrence selected by VEDO can be considered conservative by industry standards. Gas utilities typically select design peak day criteria with a 5 to 10 percent probability of occurrence. In VEDO's design peak day forecasting model, current day temperature has the most significant impact on

sendout. The current design peak day temperature criterion selected by VEDO has a 6.7 percent probability of occurrence, which is within the probability range used by other gas utilities. It is the addition of VEDO's other design peak day variables (i.e., wind speed and prior day temperature) which decreases the joint probability of occurrence. Our analysis reveals that adjusting the other design peak day criteria to increase the joint probability of occurrence to exceed 5 percent would reduce the Company's design peak day forecast by less than 10,000 Dth, or less than 2 percent. Given the small increase in VEDO's projected design peak day requirements and the uncertainty associated with design peak day forecasting, we do not believe VEDO's design peak day criteria to be unreasonable.

ES-8. Future Capacity Acquisitions

Although VEDO is in the process of exiting the merchant function, VEDO will continue to prepare an annual design peak day forecast. The forecast will be utilized to ensure that suppliers serving former GCR and choice customers maintain, either through assignment by VEDO or by contracting directly, sufficient firm interstate pipeline capacity with primary delivery points to the Company's citygates. VEDO's future interstate pipeline contracting decisions will be reached through consensus with suppliers. We believe that this approach is appropriate, will promote the development of alternatives to traditional utility service and maintain service reliability.

ES-9. Propane Facility Expansion

The auditor which conducted VEDO's prior management audit recommended that VEDO analyze whether the vaporization capacity of its propane facilities could be economically expanded and utilized to displace pipeline or storage capacity. To address this recommendation, VEDO engaged Standby Systems, Inc. to assist in determining the estimated costs of an expansion of its propane facilities' vaporization capacity by 10,000 Dth per day. Based on the estimated costs of the expansion and the unit rate per Dth produced from the propane facilities, VEDO concluded that the costs associated with an expansion of its propane vaporization capacity would far exceed the current costs of acquiring winter

season pipeline capacity and supply, and would be, therefore, uneconomic. Exeter concurs with VEDO's analysis and conclusion.

ES-10. Audit Period Procurement Strategy

VEDO's audit period procurement strategy to maximize deliveries from its lowest cost source of supply was consistent with least cost gas procurement. VEDO's audit period gas supply commodity purchases were consistent with this strategy.

ES-11. Late Winter Peaking Criterion

The Stipulation and Recommendation approved by the Commission in VEDO's prior management audit proceeding required VEDO to perform a statistical analysis of its late winter peaking criterion to evaluate the appropriate date for retention of storage ratchets. This was to address the recommendation of the auditor that VEDO move its late winter peaking date from the current February 15th to January 21st. It was anticipated that by moving the storage ratchet retention date to January 21st, additional gas would be withdrawn from storage during November, December and January, displacing the purchase of higher cost gas during these months. A company-specific requirement of this audit was to review VEDO's statistical analysis. As part of its analysis, VEDO examined actual gas prices during the 2006-2007 and 2007-2008 winter seasons. This examination revealed that gas prices were not always lower toward the end of the winter season than at the beginning of the winter season.

VEDO's analysis also investigated the effect moving the storage ratchet retention date to January 21st would have on service reliability. VEDO's analysis revealed that if the date was moved to January 21st and a severe winter season was experienced, VEDO would have insufficient gas in storage inventory and firm pipeline transportation capacity to meet its GCR customers' requirements. Based on VEDO's findings with respect to winter season gas prices and the effect of moving the storage ratchet retention date on service reliability, we agree with the conclusion of VEDO's analysis that the storage ratchet retention date not be moved to January 21st.

ES-12. Choice Transportation Service

Our audit revealed no concerns with respect to choice suppliers delivering gas as directed by VEDO, nor the imbalances between the quantity of gas VEDO directs choice suppliers to deliver and the actual usage of choice customers.

ES-13. Traditional Transportation Service

Revised balancing procedures were implemented for traditional transportation customers effective September 1, 2006. These procedures were modified slightly effective November 1, 2007. The revised procedures require, among other things, that on a monthly basis deliveries and usage balance within 5 percent. Imbalances within 5 percent are carried forward to the following month. Imbalances which exceed 5 percent are cashed out at a price which reflects the average of the applicable month's Columbia Gas Transmission daily index prices, adjusted for a multiple contingent upon the extent to which the imbalance exceeds 5 percent.

During July 2008, gas prices experienced an unprecedented decline, falling nearly \$4.00 per Dth. This provided large transportation customers the opportunity to realize a gain at the expense of GCR customers. Such a gain could have been realized through the overdelivery of gas, which then would have been purchased by VEDO at prices well in excess of the prices paid for overdelivered gas supplies by transportation customers. Our audit revealed that transportation customers did not increase deliveries to capture the potential benefit. In addition, our audit revealed that during peak periods, deliveries by traditional transportation customers generally exceeded usage. As such, we conclude that VEDO's revised balancing procedures provided sufficient protection for GCR customers during the audit period.

VECTREN ENERGY DELIVERY OF OHIO, INC.

Management Performance Audit of Gas Purchasing Practices and Policies

1. INTRODUCTION

The Public Utilities Commission of Ohio ("PUCO" or "Commission") has ordered management performance audits to investigate gas purchasing practices and policies of local natural gas distribution companies ("LDC") under its jurisdiction on a biennial basis since 1989. Prior to 1989, audits were conducted on an annual basis. These management performance audits are undertaken to review each LDC's management policies, organizational structures and operational procedures, and to determine the LDC's effectiveness in achieving adequate and reliable supplies of natural gas at minimum prices. The audits also examine the steps being taken by the LDC to encourage competitive alternatives to traditional utility services. By entry issued July 16, 2008, the Commission ordered a management performance audit ("audit") of the gas purchasing practices and policies of Vectren Energy Delivery of Ohio, Inc. ("VEDO" or "the Company"). Exeter Associates, Inc. was selected by the Commission to perform the audit of VEDO.

Effective October 1, 2008, VEDO implemented Phase I of a three-part plan to exit the gas merchant function. Under Phase I, approved by the Commission with an express retention of jurisdictional oversight, VEDO eliminated its existing Gas Cost Recovery ("GCR") mechanism and implemented in its place a new Standard Sales Offer ("SSO") Rate. Consistent with the elimination of the GCR mechanism on October 1, 2008, the period subject to review in this audit extends from November 2005, the concluding date of VEDO's prior GCR audit, through September 30, 2008.

The first section of this introductory chapter provides an overview of the Company and its corporate affiliates. The next section provides a brief description of the structure of our audit report.

1.1 Vectren Energy Delivery of Ohio and Corporate Affiliations

Vectren Corporation ("Vectren") is an Indiana corporation headquartered in Evansville, Indiana. Vectren is the parent holding company of Vectren Utility Holdings, Inc., ("VUHI"). VUHI serves as the intermediate holding company for Vectren's regulated utilities: Vectren Energy Delivery of Ohio, Indiana Gas Company ("IGC"), and Southern Indiana Gas & Electric Company ("SIGECO"). Vectren Enterprises ("Enterprises") is an intermediate holding company for Vectren's unregulated operations. VUHI provides a number of shared services to Vectren's regulated utilities, including the gas procurement function.

IGC provides natural gas sales and distribution services to more than 565,000 residential, commercial and industrial customers in 311 communities across nearly two-thirds of the state of Indiana. SIGECO provides electric service to approximately 140,000 customers in Evansville, Indiana and 74 other cities and towns in 6 counties of Southwestern Indiana, and wholesale electric service to an additional 4 communities. SIGECO also furnishes natural gas sales and distribution services to approximately 112,000 customers in Evansville and 64 other nearby communities.

Enterprises' unregulated legal business entities are: Vectren Energy Services, Inc.; Vectren Energy Retail, Inc.; Vectren Utility Services, Inc.; Vectren Ventures, Inc.; and Vectren Financial Group, Inc. Vectren Energy Services, Inc. is an intermediate holding company for Vectren Energy Marketing & Services, Inc., which holds a 100 percent interest in Energy Systems Group, Inc. and a 61 percent financial interest in ProLiance Energy, LLC ("ProLiance"). Energy System Group, Inc. holds a 100 percent interest in Energy Systems Group, LLC, which provides energy-related performance contracting and facility upgrades through the design and installation of energy efficient equipment to industrial, commercial and governmental customers. ProLiance is a regional marketer of natural gas providing gas supply services to IGC and SIGECO and end use customers.

Vectren Energy Retail, Inc. is an intermediate holding Company for Vectren Retail, LLC (d/b/a Vectren Source). Vectren Source provides natural gas and other

products and services primarily in Ohio to customers opting for choice among energy providers.

Vectren Utility Services, Inc. is an intermediate holding company for Vectren Fuels, Inc., Reliant Services, LLC ("Reliant") and Miller Pipeline Corporation, Inc. ("Miller"). Vectren Fuels, Inc. owns and operates coal mining properties. Output from these mines provides coal to Vectren's electric power plants as well as other companies. Reliant was a joint venture between Vectren Utility Services, Inc. and Duke Energy. Prior to the sale of Reliant's assets to SM&P Utility Resources ("SM&P") in August 2006, Reliant performed underground locating, meter reading and trenching services for gas, electric, water and cable companies; line locating services for IGC; and meter reading services for IGC and SIGECO. Reliant ended all meter reading activities for SIGECO and IGC in July 2006, and the locating services were transferred to SM&P in August 2006. Reliant currently has no operations or employees.

Miller is a nationwide construction contractor, providing pipeline contracting and rehabilitation and maintenance services for gas, water and sewer pipelines. On July 1, 2006, Vectren Utility Services, Inc. acquired Duke Energy's 50 percent share of Miller, making Miller a fully-owned subsidiary.

Vectren Ventures, Inc. invests in energy-related companies and projects. Vectren Ventures maintains 36.7 percent ownership in Haddington Energy Partners, LP and 42.1 percent ownership in Haddington Energy Partners II, LP. Haddington I and II are investment companies that invest in energy-related projects such as natural gas gathering and storage and electric generation.

Vectren Financial Group, Inc. is the intermediate holding company for Southern Indiana Properties, Inc. ("SIPI"), Vectren Synfuels, Inc., and Energy Realty, Inc. SIPI holds investments in affordable housing projects and leveraged leases. Vectren Synfuels owns a limited partnership interest in Pace Carbon Synfuels, LP, which produced and sold coal-based synthetic fuel that qualified for IRS code Section 45 (formerly Section 29) investment tax credits. These tax credits expired at the end of

2007. Pace Carbon Synfuels has ceased operations. Energy Realty invests in partnerships and corporations that invest in affordable housing projects.

Vectren Capital Corporation is the financing entity for the operations of Enterprises. Vectren Aero, LLC operates the corporate airplane. Figure 1.1 presents the corporate structure of Vectren Corporation.

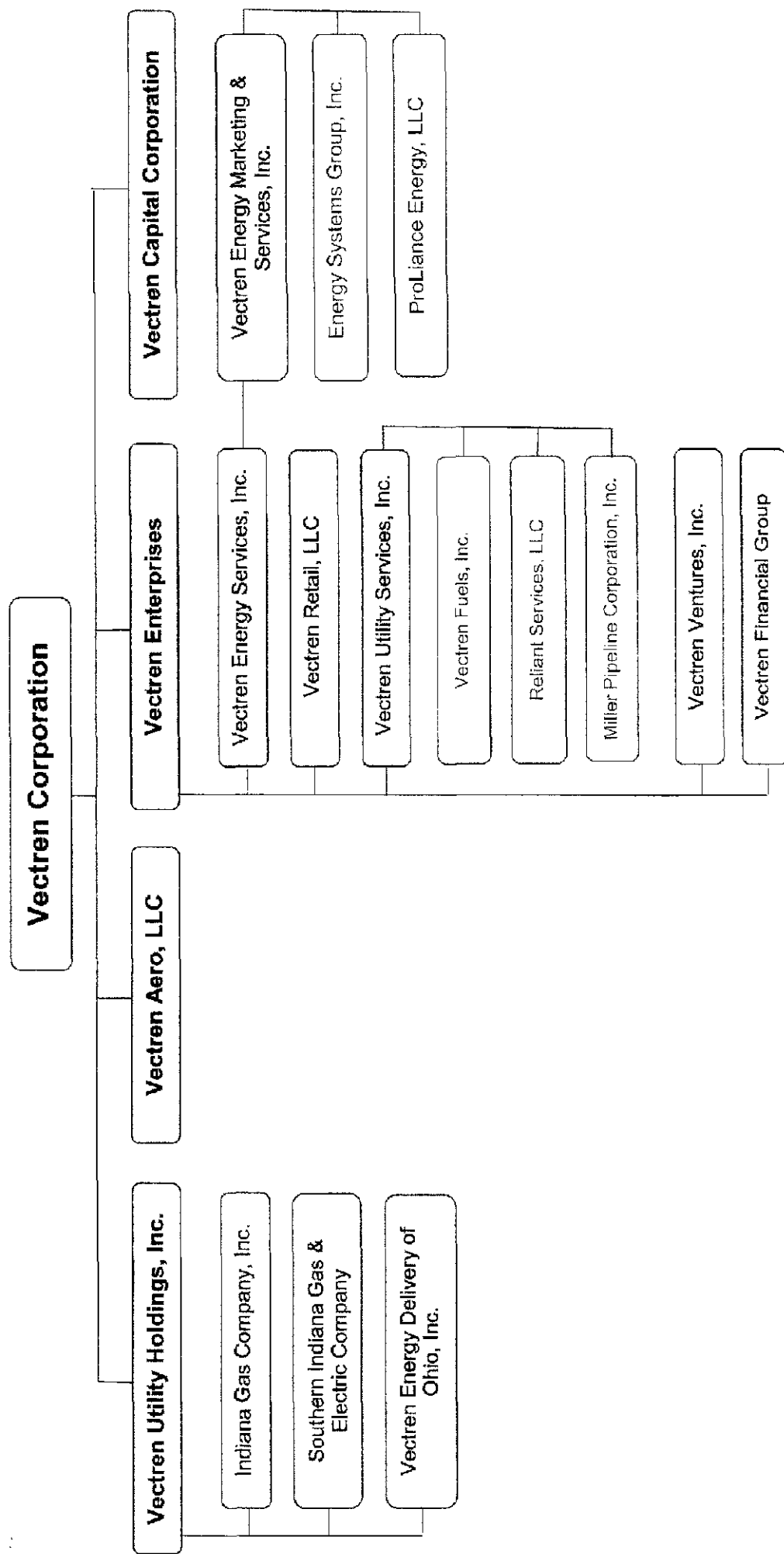
1.2 Structure of Audit Report

The audit report, which is divided into five additional chapters, analyzes, evaluates and presents specific conclusions and recommendations with respect to the structure, policies and procedures of VEDO's gas supply procurement and management functions. With the exception of this introductory section and Chapter 2, our conclusions and recommendations are presented at the end of each chapter, and are summarized in the Executive Summary which precedes this Introduction.

Chapter 2 of our report provides a description of VEDO and the markets it serves. This chapter includes statistical data identifying the number of customers served, usage by customer class and other operating information. Chapter 3 evaluates the organization and management of VEDO's gas procurement function. The Company's affiliate relationships and intervention activities at the Federal Energy Regulatory Commission ("FERC") are also discussed in this chapter.

VEDO's gas resource planning is discussed and evaluated in Chapter 4. Chapter 4 provides a detailed discussion of the Company's gas supply and capacity arrangements and the changes in those arrangements which occurred during the audit period. Included in this discussion are VEDO's audit period asset management arrangements with Sequent Energy Management, LP. The following section examines the balance of VEDO's capacity resources and its customers' requirements. The Company's proposal to exit the merchant function is also discussed in Chapter 4.

Figure 1.1
VECTREN CORPORATION
 Corporate Structure



A discussion and evaluation of VEDO's gas supply and capacity utilization and other activities within the audit period are presented in Chapter 5. This discussion focuses on how VEDO used its procurement options to meet the requirements of its customers. Lost and unaccounted-for gas and company-use gas are also addressed in Chapter 5.

Chapter 6 is the final section of our report and evaluates VEDO's transportation programs. Included in this evaluation are VEDO's customer choice program for smaller customers and its traditional transportation service offerings for larger customers.

2. COMPANY BACKGROUND DESCRIPTION AND OVERVIEW

The physical and operational characteristics of VEDO's system and the Ohio natural gas markets which it serves are identified in this chapter. This material serves as a framework for the evaluation of VEDO's natural gas procurement policies and procedures as well as its marketing functions.

2.1 System Configuration

VEDO was served by six interstate pipelines during the audit period: ANR Pipeline ("ANR"), Columbia Gas Transmission ("Columbia Gas"), Panhandle Eastern Pipe Line ("Panhandle"), Texas Eastern Transmission ("Texas Eastern"), Texas Gas Transmission ("Texas Gas"), and Trunkline Gas Company ("Trunkline"). In total, VEDO receives gas at 26 pipeline delivery points. Ten of these points account for approximately 95 percent of the gas supplies delivered to VEDO's system.

VEDO's distribution system is comprised of seven operating systems. VEDO's operating systems, the pipelines serving those systems and the Company's ability to deliver gas from one operating system to another are as follows:

Centerville/Howell - This operating system is directly connected to Columbia Gas, with some interconnected supply capability from the Lebanon/Centerville/Derby and Glen Karn systems.

Lebanon/Centerville/Derby - This operating system is directly connected to Texas Gas, Texas Eastern, Columbia Gas, and ANR with some interconnected supply capability from the Centerville/Howell and Glen Karn systems.

Glen Karn - This operating system is supplied primarily by Panhandle with limited interconnected supply capability from the Lebanon/Centerville/Derby and Centerville/Howell systems.

Hollansburg - This operating system is supplied primarily by Panhandle with some interconnected supply capability from the Centerville/Howell and Lebanon/Centerville/Derby systems.

Mt. Sterling/Sabina/Gano Road - This operating system is supplied by Texas Eastern and Columbia Gas with no interconnected supply capability from other VEDO systems.

Urbana/Lake - This operating system is supplied by Columbia Gas with no interconnected supply capability from other VEDO systems.

Propane - This operating system consists of VEDO's on-system propane supply.

A map identifying VEDO's operating systems and its primary interstate pipeline delivery points, or interconnects, is presented in Figure 2.1.

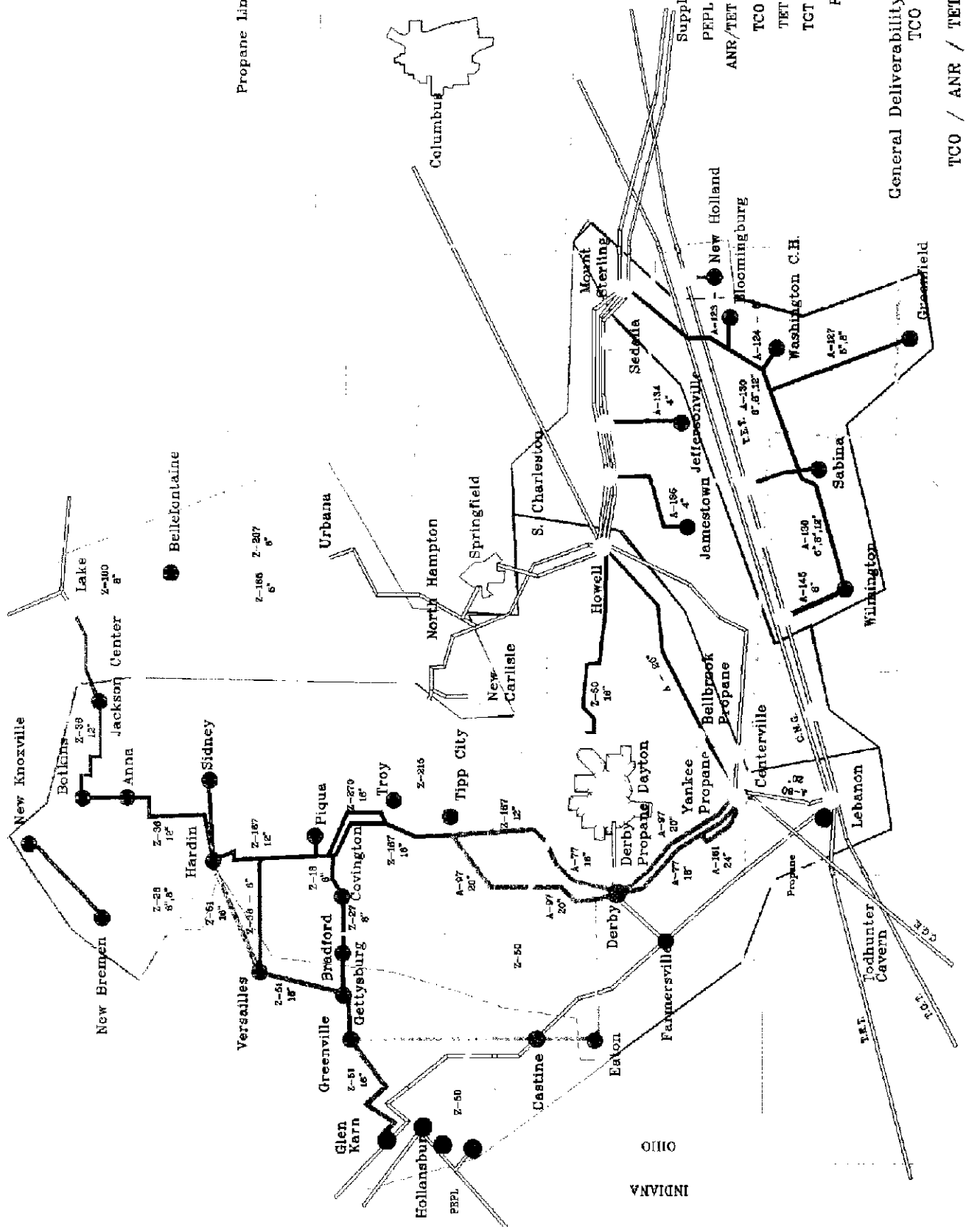
VEDO is interconnected with ANR on the southwestern portion of its system along the Lebanon Lateral. The Lebanon Lateral is a 114 mile pipeline that extends from Gas City, Indiana to Lebanon, Ohio. The western segment of the Lebanon Lateral is 100 percent owned and operated by Texas Eastern and extends from an interconnect with Panhandle in Gas City, Indiana to VEDO's Glen Karn Station. The eastern segment of the Lebanon Lateral extends from the Glen Karn Station to Lebanon, Ohio. This segment of the Lebanon Lateral is also operated by Texas Eastern and is owned 50 percent by ANR and 50 percent by Texas Eastern. VEDO maintains active interconnects with ANR at the Derby Station, and at the Red Lion Station, a delivery point within the Lebanon Hub. The Lebanon Hub is a location in and around Lebanon, Ohio where a number of pipelines interconnect within close proximity, and as a result, has developed into a major natural gas market center.

VEDO's major interconnects with Columbia Gas are at Centerville, Howell, Mt. Sterling and Sabina. In addition to these interconnects, VEDO also interconnects with Columbia Gas at a number of locations which serve the Urbana/Lake operating system. VEDO interconnects with Panhandle on the western side of its system, at the Glen Karn and Hollansburg Stations. Given the joint ownership by Texas Gas and ANR of the Lebanon Lateral, VEDO is interconnected at four locations on this lateral that allow deliveries from either pipeline. These stations include Glen Karn, Castine, Derby and Red Lion. Although the Lebanon Lateral also passes through VEDO's Glen Karn Station, VEDO does not routinely take delivery of Texas Eastern or ANR gas at this location. VEDO is interconnected with Texas Eastern at the Gano Road Station, which serves the town of Wilmington. VEDO's only interconnect with Texas Gas is at the Lebanon Station, which is located in close proximity to the Red Lion Station.

MAOP Legend

- 1000#
575#
510#
500#
480#
400#
265#
256#
225#
150#
696#

Propane Line - 696#



VEDO has recently entered into an arrangement for an interconnect to be constructed with the Rockies Express Pipeline ("REX") at a location near the Lebanon and Red Lion Stations. The cost of the interconnect will be paid for entirely by REX. REX is currently under construction. The REX system is a 1,679 mile pipeline originating in Rio Blanco County, Colorado capable of delivering gas sourced in the Rocky Mountain production region.

No physical capacity constraints currently hinder VEDO's distribution system operations. VEDO does not require or maintain compression to effectuate the delivery of gas on its distribution system. VEDO operates no indigenous underground natural gas storage facilities; however, the Company maintains and operates three propane-air peak shaving facilities with a maximum daily rated deliverability of approximately 53,000 Dth.

2.2 Markets Served by VEDO

VEDO provided firm bundled utility sales service during the audit period under several rate schedules. Service to residential customers was provided under the Residential Sales Service rate schedule (Rate 310). Service to non-residential customers with annual usage of less than 15,000 Mcf was provided under the General Sales Service rate schedule (Rate 320). Service to non-residential customers with annual usage in excess of 15,000 Mcf was provided under the Large General Sales Service rate schedule (Rate 330). VEDO also provided service under the Dual Fuel service rate schedule (Rate 341) to customers who maintain the ability to switch to an alternate fuel when the outside temperature falls below a certain predetermined temperature. Currently, two customers take service under this rate schedule and it is closed to new customers. All sales customers paid the applicable GCR during the audit period.

In addition to its utility sales service, VEDO also provides firm transportation service from its citygate to a customer's premises for those customers who acquire their own gas supplies on the interstate markets and separately arrange for the delivery of those supplies to VEDO's citygate. Transportation service was provided during the

audit period under the Residential Transportation (Rate 315), General Transportation (Rate 325) and Large General Transportation (Rate 345) Services rate schedules. Annual usage service qualifications under VEDO's transportation rate schedules are the same as those applicable under its sale rate schedules.

VEDO provided natural gas sales and transportation services to 290,000 residential customers and 25,000 commercial, industrial and public authority customers during calendar year 2007. The number of customers to which VEDO provides service has increased at an average annual rate of approximately 0.5 percent since 2003. Total system throughput, that is, total sales and transportation service volumes, delivered by VEDO during 2007 was 51.6 Bcf. Selected throughput, customer and operating statistics for the past five years are presented in Table 2.1.

A five-year history of VEDO's actual peak day and associated temperature data is also summarized in Table 2.1. Peak day loads are important because they indicate the maximum loads for which VEDO must plan to accommodate. During the audit period VEDO arranged for gas supplies and capacity sufficient to meet the design peak day requirements of its firm retail GCR customers and of those transportation customers who purchase standby service.¹

Table 2.1 highlights the migration of GCR sales customers to transportation service experienced by VEDO under its customer choice program since 2003. VEDO's customer choice program is discussed in greater detail in Chapter 6.

¹ Design day is an extremely cold day which an LDC selects and utilizes for capacity planning purposes. Peak day is the day of greatest total throughput during an annual period. A peak day generally occurs on the coldest day of the year. A design day is colder than an average peak day and would be expected to occur less frequently than once a year. Design peak day is further discussed in Chapter 4.

Table 2.1

VECTREN ENERGY DELIVERY OF OHIO, INC.
Select Operating Statistics

THROUGHPUT (Mcf)					
Sales Service	2003	2004	2005	2006	2007
Residential	26,352,733	20,755,404	19,922,433	17,943,816	18,426,640
General	12,515,618	10,419,946	8,851,920	8,346,541	8,510,104
Large General	Note 1	Note 1	1,643,019	1,239,021	1,059,806
Dual Fuel	0	0	2,931	4,887	3,592
Total Sales Service	38,868,351	31,175,350	30,420,303	27,534,265	28,000,142
Transportation Service	2003	2004	2005	2006	2007
Residential Choice	1,113,119	5,457,018	6,219,483	5,545,318	5,965,503
General Choice	500,259	1,842,734	1,770,790	1,505,941	1,717,783
Large General	17,225,824	16,733,183	16,129,037	16,195,989	15,949,268
Total Transportation Service	18,839,202	24,032,935	24,119,310	23,247,248	23,632,554
Total System Throughput	57,707,553	55,208,285	54,539,613	50,781,513	51,632,696
NUMBER OF CUSTOMERS					
Sales Service	2003	2004	2005	2006	2007
Residential	264,761	228,507	222,489	224,017	221,005
General	23,101	20,317	20,156	20,726	20,336
Large General	Note 1	Note 1	296	32	24
Dual Fuel	0	0	4	3	2
Total Sales Service	287,862	248,824	242,945	244,778	241,367
Transportation Service					
Residential Choice	20,847	58,577	66,224	66,024	69,692
General Choice	1,699	4,383	4,161	3,833	4,280
Large General	573	615	650	658	651
Total Transportation Service	23,119	63,575	71,035	70,515	74,623
Total Customers	310,981	312,399	313,980	315,293	315,990
WEATHER STATISTICS					
Calendar Year	2003	2004	2005	2006	2007
Degree Days	5,792	5,498	5,702	5,070	5,354
Normal	5,690	5,690	5,690	5,690	5,690
Warmer/(Colder) Normal	-1.8%	3.4%	-0.2%	10.9%	5.9%
PEAK DAY STATISTICS					
Winter Season	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
System Peak Demand (Mcf)	505,866	478,292	433,714	507,208	445,975
Peak Day Temperature °F	-2	5	5	2	7

Notes:

(1) The Large General service classification instituted in 2005. Prior years' volumes are reflected in General Sales Service.

3. MANAGEMENT AND ORGANIZATION

This chapter details VEDO's organizational structure as it relates to the Company's natural gas procurement and supply management functions during the audit period. The first section of this chapter discusses the Gas Supply Group, the entity with primary responsibility for the Company's gas procurement function. The following section discusses the organization and activities of the Gas System Operations group and other groups and departments which assist in the gas procurement function. The third section of this chapter identifies the affiliates of VEDO engaged in the sale of gas in Ohio. Section 3.4 discusses the Company's internal audit of its gas supply process profiles and procedures, a company-specific audit requirement. The next section discusses VEDO's FERC intervention activities. The final section presents our conclusions and recommendations.

3.1 Gas Supply Group

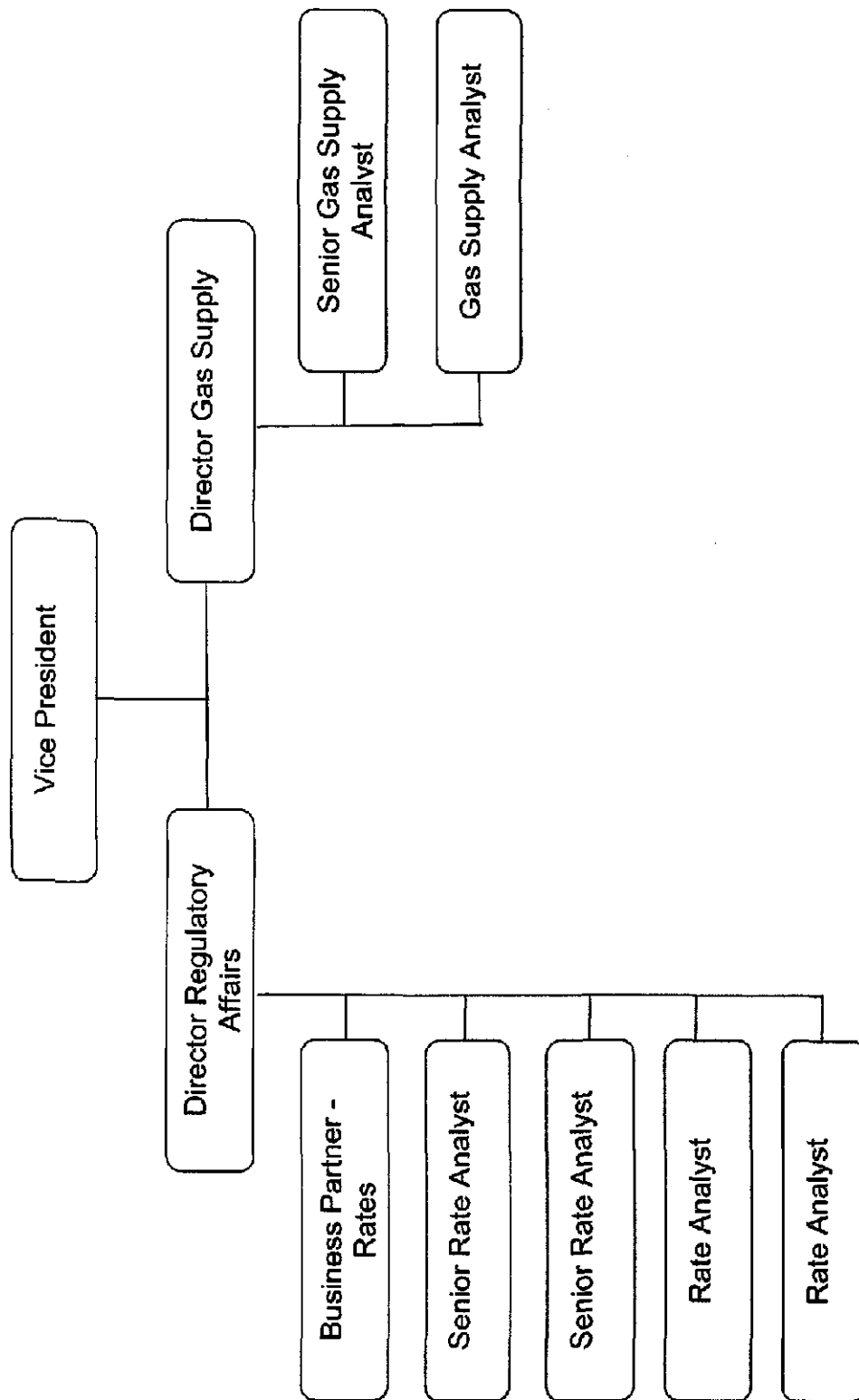
The majority of VEDO's gas procurement functions and activities are the responsibility of the Gas Supply Group ("Gas Supply"). Gas Supply is a section of the Regulatory Affairs and Fuels Department, a Vectren Utility Holding, Inc. ("VUHI") entity providing shared services to VEDO and Vectren's other gas utility subsidiaries. Gas Supply is located in Vectren Corporation's headquarters building in Evansville, Indiana. Gas Supply performs the gas procurement function for VEDO, as well as the Indiana Gas Company and Southern Indiana Gas & Electric Company.

Figure 3.1 presents the organizational structure of Regulatory Affairs and Fuels. The Gas Supply Group consists of two staff employees, and a Director who reports to the Vice President of Regulatory Affairs and Fuels. The Vice President of Regulatory Affairs and Fuels reports to the Executive Vice President and Chief Financial Officer of Vectren Corporation, who in turn reports to the Chairman, President and CEO of Vectren Corporation.

The procurement responsibilities of Gas Supply during the audit period included:

- Daily, monthly, and annual gas supply planning for VEDO;

Figure 3.1
VECTREN UTILITY HOLDINGS, Inc.
Regulatory Affairs and Fuels



- Gas procurement on a daily, monthly and annual basis including the preparation of RFP's seeking natural gas supplies from commodity suppliers and the hedging of gas supplies via either physical or financial transactions;
- Interstate capacity management;
- Preparing the RFP's and awarding the agreements to provide VEDO with asset management services throughout the audit period;
- Preparing seasonal and monthly plans and updating the plans on a real time basis for both storage injections and storage withdrawals for VEDO's contract storage services; and
- Preparing the supply forecast for each Long-Term Forecast Report and organizing the preparation and filing of the reports each year.

3.2 Gas System Operations and Other Groups Assisting Gas Supply

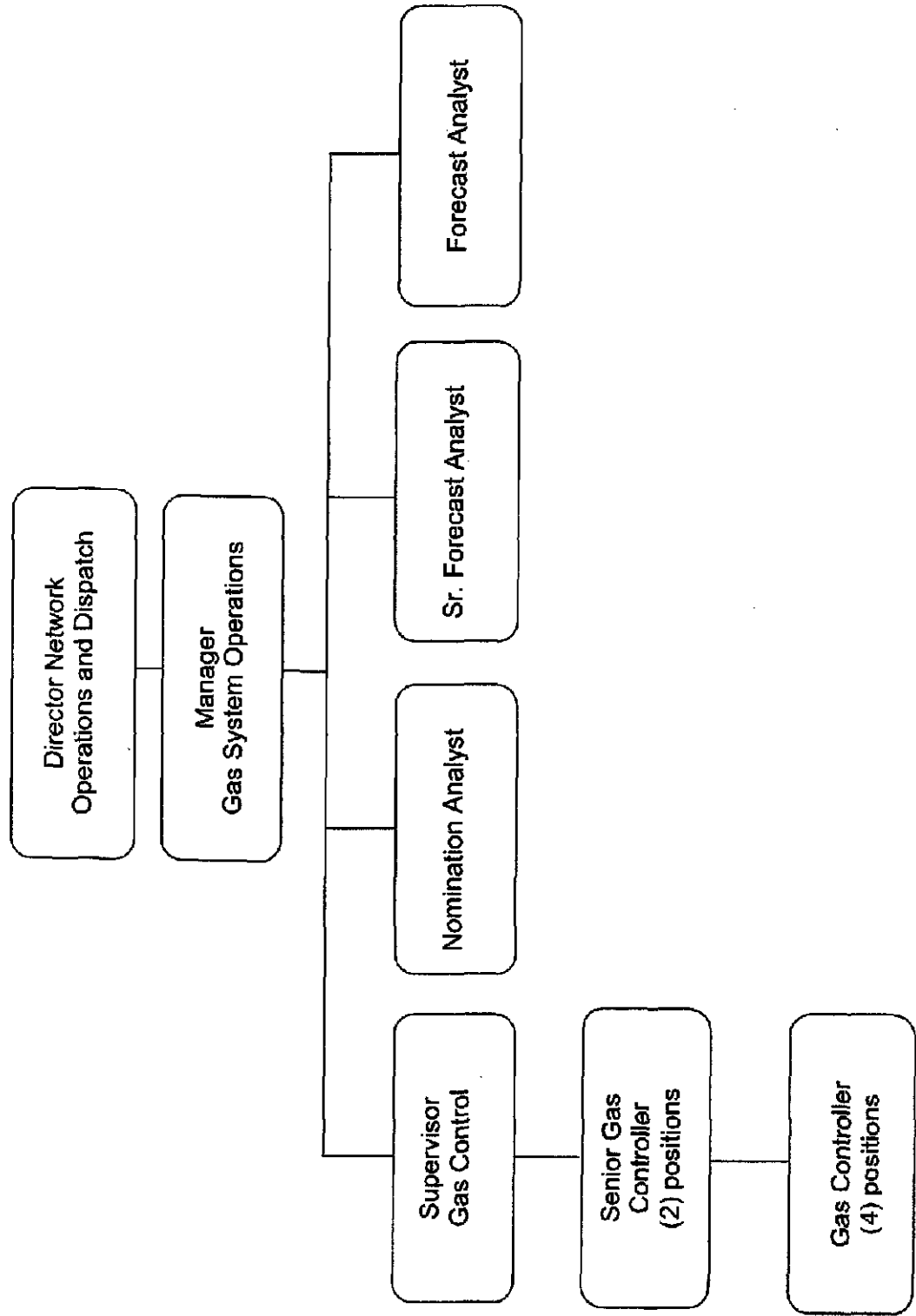
Assisting Gas Supply in the performance of the gas procurement function is the Gas System Operations Group, a section within Energy Delivery. Also known as Gas Control, Gas System Operations consists of ten staff members, and a Manager who reports to the Director of Network Operations and Dispatch, who reports to the Vice President of Energy Delivery. Energy Delivery is also a VUHI entity providing shared services to VEDO and Vectren's other gas utility subsidiaries. The Vice President of Energy Delivery reports to the VUHI Executive Vice President of Utility Operations who in turn reports to the Chairman, President and CEO of Vectren Corporation. Figure 3.2 presents the organizational structure of System Gas Operations.

The Gas System Operations group has the following responsibilities, which impact the gas procurement functions performed by Gas Supply:

- Preparing the daily demand forecast for use by Gas Supply to prepare the daily gas supply plan to meet sales customer demands;
- Preparing monthly forecasts of peak day demand for use by Gas Supply to build VEDO's capacity portfolio to meet the demands of sales customers; and
- Preparing the demand forecast section for each Long-Term Forecast Report.

Figure 3.2

**VECTREN UTILITY HOLDINGS, Inc.
Gas System Operations**



Several other groups and departments also assist with the performance of the gas procurement function at VEDO. Each is a VUHI entity. The Legal Department assists the Gas Supply Group with FERC intervention activities and in the review of asset management, supplier and pipeline contracts. The Risk Management Group assists with evaluating the credit-worthiness of suppliers and reviews hedging activities under the Company's price volatility mitigation program, which is discussed in greater detail in Section 4.2.3(a) of this report. The Transportation Group within Energy Delivery is responsible for the management of gas transportation programs, accounting of transportation customer nominations and deliveries, and the assessment of imbalance penalties. The Gas Supply Group performs its own accounting of gas and pipeline costs and provides this information to Corporate Accounting.

With the exception of the Hedge Committee, which is charged with the development, implementation and maintenance of VEDO's gas price volatility mitigation program, there are no groups or committees which are scheduled to meet regularly to address gas procurement matters. However, groups and departments assisting with the performance of the gas procurement function do communicate on a regular basis. The Hedge Committee meets at least bi-weekly and includes the members of the Gas Supply Group, the Vice President of Regulatory Affairs and Fuels, and the Director of Risk Management.

3.3 Affiliates Engaged in the Sale of Gas in Ohio

Vectren Retail, LLC (d/b/a Vectren Source) and ProLiance Energy, LLC are affiliates of VEDO engaged in the sale of natural gas in Ohio. Vectren Source is a participant in VEDO's customer choice program. ProLiance is a regional marketer of natural gas and serves a significant number of VEDO's traditional transportation customers. Vectren Source and ProLiance do not share operations personnel with Vectren's regulated utilities; however, some VEDO senior executives serve on the boards of Vectren Source and ProLiance. Vectren Source operates out of the third floor of Vectren Corporation's headquarters building in Evansville, Indiana. ProLiance's operations are located in Indianapolis, Indiana.

VEDO indirectly purchased gas from Vectren Source during the audit period pursuant to the balancing and reconciliation procedures applicable under the customer choice program. The customer choice program balancing and reconciliation procedures are discussed in Section 6.1.2 of our report. VEDO purchased Ohio produced biomass gas supplies from ProLiance during the period November 2005 through October 2006. This gas was produced from a landfill located within VEDO service territory and operated by a third-party (Pinnacle Gas Producers). ProLiance purchased the gas from Pinnacle and resold it to VEDO. This purchase arrangement was a remnant from the pre-audit period when ProLiance provided asset management services to VEDO similar to VEDO's audit period arrangements with Sequent Energy Marketing discussed in Section 4.2.3 of our report. VEDO contracted with Pinnacle directly for the purchase of gas after the arrangement with ProLiance expired in October 2006. VEDO also indirectly purchased gas supplies from ProLiance pursuant to the balancing provisions applicable under the Large General Transportation Pooling Service rate schedule (Rate 380), which is discussed in Section 6.2.2 of our report.

The relationship between VEDO and Vectren Source is governed by the *Affiliate Code of Conduct* requirements included in the pooling service terms and conditions for choice suppliers (Rate 385). The *Affiliate Code of Conduct* provides for non-discriminatory treatment of VEDO affiliates and non-affiliates.

In addition to the *Affiliate Code of Conduct* included in VEDO's tariff, the Company has voluntarily adopted *Affiliate Guidelines for Vectren Energy Delivery of Ohio* ("Guidelines"), which are applicable to all affiliates including ProLiance. Approved by the PUCO in 2004, these Guidelines require:

- No subsidization of affiliates by VEDO;
- Separation of regulated and non-regulated operations;
- No discrimination or preferential treatment of affiliates, their customers or non-regulated activities;
- The provision of comparable service by VEDO to all similarly situated marketers, customers or other entities, regardless of affiliation; and
- Procurement by VEDO on competitive terms.

3.4 Internal Audit

The prior management performance auditor (Case No. 04-220-GA-GCR) noted that an internal audit of the Gas Supply Group was performed in 2004. That audit addressed eight individual gas supply functions:

- Gas supply planning;
- ProLiance Agreement;
- Firm gas supply;
- Gas hedging;
- ProLiance invoice;
- Purchase propane;
- Management functions; and
- Unaccounted-for gas.

It was the prior auditor's opinion that the 2004 internal audit provided a very thorough and ample review of VEDO's gas supply function. The 2004 internal audit identified certain corrective actions to be taken by the Gas Supply Group. Among those actions was a requirement to address deficiencies in the documentation of the procedures performed by Gas Supply.

In 2005, an internal review was performed to verify that corrective action had been taken on the items identified in the 2004 internal audit. The prior auditor concluded that the 2005 review sufficiently covered the findings of the 2004 internal audit. However, due to the timing of the review, the prior auditor believed that there was insufficient opportunity to follow-up on the procedure documentation deficiency cited in the 2004 internal audit.

A company-specific requirement of this audit is to examine VEDO's internal audit of its gas supply process profiles and procedures, focusing on document control. As part of our audit, we examined the Gas Supply Department Procedures Manual ("Manual") prepared in response to the 2004 internal audit and the 2005 review of the 2004 internal audit. This Manual details all of the main functions of the Gas Supply Group from daily, monthly and annual gas supply planning procedures to procurement to invoicing. The Manual contains detailed information on the personnel performing the procedures, the necessary information inputs, the source of the information and the time

frame over which the procedure takes place. The Manual also includes a summary of each procedure identifying the controls, stakeholders and references. Our review indicates that VEDO has adequately addressed the procedure documentation deficiency identified in the 2004 internal audit and 2005 review of the internal audit.

3.5 FERC Participation

The Energy Policy Act of 2005 granted the FERC enhanced enforcement authority. As a result, the FERC has shifted its emphasis from a long-standing focus on rate regulation to a broader focus on regulation of conduct. The new focus includes enhanced authority to impose significant fines for non-compliance with FERC requirements.

VEDO's FERC participation focus has shifted to a compliance-driven approach that reflects the FERC's shift in emphasis to compliance and enforcement. Specifically, VEDO has enhanced its own compliance activities and participates in outside training on specific gas-related topics, including shipper-must-have-title and capacity release.¹ Additionally, within the audit period, as VEDO worked toward its exit of the merchant function in Ohio, VEDO met directly with the FERC Staff in Washington, D. C. to discuss the Company's approach. VEDO prepared and filed a waiver request with the FERC (which was later granted), when it became clear that the FERC's work on capacity release would not be complete prior to VEDO's target implementation date for its exit program in Ohio. While VEDO's approach to the FERC still includes monitoring of significant matters such as rate cases filed by pipelines that serve VEDO service areas in Ohio, VEDO's approach to the FERC is weighted towards compliance and on-going staff training efforts.

With the advent of the FERC's online dockets, VEDO personnel can access and monitor filings at the FERC without filing formal interventions. VEDO personnel continue to cooperate with the American Gas Association ("AGA") regulatory committee and its

¹ In order to promote pipeline open-access and to prevent undue discrimination in the interstate pipeline capacity markets, the FERC adopted certain policies, including the shipper-must-have-title requirement under which a shipper (transporter) must hold title to the gas being transported under the shipper's pipeline capacity. This requirement was designed to prevent the unauthorized brokering of capacity.

preparation of comments and its monitoring of issues at the FERC. VEDO has jointly sponsored AGA comments submitted during the audit period. VEDO receives alerts from the AGA, specifically, the AGA FERC Regulatory Committee. Additionally, VEDO's outside counsel in Washington, D.C. regularly sends alerts regarding FERC Orders, opportunities for comment, and other items of interest. Responsibility for VEDO's FERC participation activities are shared by the Legal Department, Director of Gas Supply and Vice President of Regulatory Affairs and Fuels.

The proceeding of most interest to VEDO during the audit period in which it joined the AGA in comments was the FERC's rulemaking in Docket No. RM06-21-000 et al., addressing capacity release and shipper-must-have-title issues. In its comments, the AGA recommended that the FERC permit capacity release transactions to be combined with other capacity or gas supply obligations that have a nexus to the releasing party's own business use of the capacity, and not be considered an inappropriate tying arrangement under the FERC's capacity release regulations. The AGA argued that permitting such transactions would promote the development of asset management arrangements. The AGA also recommended that the price cap on short-term (less than one year) releases of capacity be lifted on a permanent basis. With respect to shipper-must-have-title, the AGA requested that the FERC permit parties to engage in state-authorized customer choice programs and storage transactions without being restricted by the shipper-must-have-title requirement. The AGA's recommendations on the capacity release and shipper-must-have-title issues were largely adopted by the FERC in Order No. 712.

3.6 Conclusions and Recommendations

3.6.1 Organizational Structure

Our audit revealed no concerns with respect to the organizational structure of Vectren Corporation, Vectren Utility Holdings, Inc., Vectren Energy Delivery of Ohio, Inc., the Regulatory Affairs and Fuels Department or the Gas Supply Group which would interfere with the purchase of reliable supplies of gas at minimum prices. Our audit revealed no concerns with respect to the relationships between VEDO and its

affiliates, Vectren Retail, LLC and ProLiance Energy, LLC, which are also engaged in the sale of gas in Ohio.

3.6.2 Internal Audit of Gas Supply Process Profiles

The prior management performance auditor (Case No. 04-220-GA-GCR) noted that an internal audit of the Gas Supply Group was performed in 2004. It was the prior auditor's opinion that the 2004 internal audit provided a very thorough and ample review of VEDO's gas supply function. The 2004 internal audit identified certain corrective action to be taken by the Gas Supply Group. Those actions included addressing a perceived deficiency in documenting procedures performed by Gas Supply.

In 2005, an internal review was performed to verify that corrective action had been taken on the items identified in the 2004 internal audit. The prior auditor concluded that the 2005 review sufficiently covered the findings of the 2004 internal audit. However, due to the timing of the review, the prior auditor believed that there was insufficient opportunity to follow-up on the procedure documentation deficiency cited in the 2004 internal audit.

A company-specific requirement of this audit is to examine VEDO's internal audit of its gas supply process profiles and procedures, focusing on document control. As part of our audit, we examined the Gas Supply Department Procedures Manual prepared in response to the 2004 internal audit and 2005 review of the 2004 internal audit. This Manual details all of the main functions of the Gas Supply Group from daily, monthly and annual gas supply planning procedures to procurement to invoicing. The Manual contains detailed information on the personnel performing the procedures, the necessary information inputs, the source of the information and the time frame over which the procedure takes place. The Manual also includes a summary of each procedure identifying the controls, stakeholders and references. Our review indicates that VEDO has implemented the procedure documentation deficiency recommendations identified in the 2004 internal audit and the 2005 review of the internal audit.

4. GAS RESOURCE PLANNING

The objective of gas resource planning is to develop and secure portfolios of capacity and gas supplies, including transportation and storage, to accomplish the delivery of gas to the utility's citygate to serve the projected requirements of the company's sales customers and operational balancing requirements of transportation customers as economically as possible, consistent with the reliable provision of service at all times. Selection of the capacity and gas supply portfolios involves an evaluation of feasible options available to meet a company's expected design peak day, winter season and annual requirements. During the audit period, these options included the acquisition of term and spot market gas supplies from unregulated suppliers (collectively "gas supply resources"), no-notice, standard firm and interruptible transportation services, capacity release and storage (collectively "capacity resources"), and peaking service, a bundled gas supply and capacity resource. The factors upon which the assessment of these options are based, option prioritization and retention or exclusion, the impact of uncertainty and the ultimate selection of options, are all important aspects of the gas resource planning process.

An overview of the capacity and gas supply resources available to VEDO and a summary of the Company's audit period arrangements are presented in the first section of this chapter. The audit period portfolios of capacity and gas supply resources utilized by VEDO are discussed in greater detail in Section 4.2. Changes to the Company's capacity and gas supply arrangements which occurred during the audit period are also discussed in this section. Section 4.3 evaluates VEDO's forecasting of design peak day, winter season and annual requirements, and analyzes the balance between VEDO's capacity resources with its firm sales customers' requirements. Section 4.4 discusses the status of VEDO's plans to exit the merchant function. The final section of this chapter contains our conclusions and recommendations concerning the Company's gas resource planning procedures.

4.1 Overview and Summary of Audit Period Capacity Gas Supply Arrangements

The capacity and gas supply resources available to VEDO to meet the natural gas requirements of its customers during the audit period are discussed below.

Transportation Service. Transportation service provides pipeline capacity to move gas supplies from the point of receipt to the point of delivery. The receipt point may be at an interconnect with another interstate pipeline, an off-system (or contract) storage facility or a point at which a pipeline's or producer's gathering facilities meet a pipeline's mainline transmission facilities. Delivery points would include an LDC's citygate or an off-system storage facility. Transportation service only includes interstate pipeline capacity and, therefore, a separate gas supply must be arranged. Transportation service generally requires the nomination of receipt and delivery point quantities. Takes, or consumption, at a delivery point must balance, within certain minimal tolerances, with amounts nominated by the shipper. Failure to adhere to these balancing requirements may result in the assessment of penalty charges or the curtailment of deliveries by the interstate pipeline. Transportation service is available on either a firm or interruptible basis, and includes transportation service provided under capacity release arrangements.

No-Notice Transportation Service. No-Notice service typically permits a shipper to take or consume volumes which differ from nominated quantities without penalty. No-Notice service is required by most gas distribution companies to balance supplies and requirements on a daily basis.

No-Notice service may be a stand-alone service permitting a gas distribution company to take delivery of an amount of gas which differs from nominated quantities with the requirement that any differences (imbalances) between its nominations and actual consumption be corrected in subsequent periods. However, more commonly, No-Notice service is accomplished by re-bundling interstate pipeline firm transportation and storage service. Under the rebundled approach, imbalances between a gas distribution company's daily nominations and the actual quantities consumed are assumed to be accommodated by gas injected or withdrawn from interstate pipeline storage capacity reserved by the gas distribution company.

Capacity Release. A primary holder of interstate pipeline transportation or storage capacity, such as an LDC, can sell or release capacity in excess of its customers' immediate requirements to others who desire that capacity. Payments for the purchase of released capacity by the acquiring

party are made directly to the interstate pipeline. The primary capacity holder subsequently receives a credit on its monthly invoice from the pipeline in the amount of the release payment. These capacity release credits reduce an LDC's purchased gas costs. Although they are typically releasors of capacity, LDCs may also purchase released capacity.

Storage Service. Storage service provides both a peak day and winter season gas supply resource, and seasonal and daily load management capabilities. On-system storage refers to storage owned by an LDC which is directly connected to the LDC's distribution system and does not require transportation by an interstate pipeline. Contract storage refers to storage service purchased from an interstate pipeline. Seasonal load management capabilities include the ability to store gas purchased during the summer season when it is normally less expensive and withdrawing the gas during the winter season when gas is traditionally more expensive. Storage enables a company to increase its purchased gas load factor. This is accomplished by increasing the ability to purchase gas during the off-peak summer months and by decreasing purchases during the peak winter months. Daily load management capabilities include the ability to accommodate unforeseen changes in gas supply requirements.

Storage deliverability refers to the maximum daily quantity of gas which can be withdrawn from a particular storage facility or under a particular storage arrangement. Seasonal storage capacity refers to the quantity of storage space available to accommodate seasonal requirements, or the maximum seasonal quantity of gas which can be withdrawn from storage.

Gas Supply Arrangements. Gas supply arrangements typically provide for a supply of gas at a receipt point into an interstate pipeline with which a shipper such as an LDC has contracted for transportation service to effectuate delivery. Gas supplies may also be purchased on a delivered to citygate basis. Local Ohio production is a gas supply resource normally delivered directly into the LDC's system. Merchants include producers, marketers and brokers. Gas supplies purchased under arrangements which commit a seller to provide gas for a period which exceeds one-month are referred to as "term" supplies. Those with a commitment term of one-month or less are referred to as "spot market" supplies.

Peaking Service. Peaking service is typically a bundled gas supply and firm transportation arrangement which provides for the delivery of gas supplies to an LDC's citygate during high demand periods. Peaking service can also be provided by on-system propane-air or liquid natural gas facilities. The number of days on which service is available under a high demand peaking arrangement is typically limited.

The natural gas supplies acquired by VEDO to meet its customers' requirements are procured from unregulated, non-pipeline merchant suppliers. These supplies are purchased in the Gulf Coast (South Texas, Louisiana, Gulf of Mexico), Mid-Continent (Kansas, North Texas and Oklahoma) and Appalachian (West Virginia, Ohio, Pennsylvania, Kentucky) production regions. Appalachian gas supplies consist of gas produced in the Appalachian region, and also refers to gas produced in other regions of the country, such as the Gulf Coast, which has been transported to the Appalachian region and is available for purchase.

During the audit period, VEDO purchased gas supplies in the Gulf Coast region, which were deliverable directly to its system by ANR and Texas Gas, or in combination by Trunkline and Panhandle. Appalachian gas supplies were delivered directly to VEDO's system by Columbia Gas. Panhandle provided for the direct delivery of Mid-Continent gas to VEDO and for the delivery of gas to Texas Eastern with subsequent delivery to VEDO's system.

A portion of the gas purchased by VEDO was utilized to satisfy current customer requirements at the time the gas was purchased. These are typically referred to as flowing gas supplies. VEDO also arranged for a portion of the gas it purchased to be injected into storage during the off-peak summer months and withdrawn from storage to meet peak winter demands or to meet unanticipated swings in demand. VEDO purchased contract storage services from Columbia Gas and Panhandle during the audit period.

The firm capacity resources under contract to deliver gas supplies to VEDO for GCR system supply for the period October 2007 through September 2008, the last year of the audit period, are summarized in Table 4.1. Table 4.1 separately identifies each firm transportation and storage service contract. Also shown are the maximum contract entitlements available under each service on a daily, seasonal and annual basis, along with the contract expiration date. Limited changes to VEDO's actual contract capacity

Table 4.1

VECTREN ENERGY DELIVERY OF OHIO, Inc.
Summary of Firm Capacity Contract Quantities
October 2007 - September 2008
(Dth)

Pipeline - Service	Contract Number	MDQ				Citygate Winter Season	Citygate Annual	Contract Expiration
		Contract		Citygate				
		Winter	Summer	Winter	Summer			
Columbia Gas	Various	200,000	100,000	200,000	100,000	7,648,000	13,752,000	3/31/2013
	Various	200,000	100,000	0	0	0	0	3/31/2013
Panhandle Eastern	20349	37,500	37,500	13,920	37,500	4,964,500	12,989,500	3/31/2015
	20848	10,521	10,521	0	0	0	0	10/31/2008
	Release	5,000	0	0	0	0	0	
	20351	46,080	21,450	46,080	0	4,203,360	0	3/31/2015
	20350	46,704	0	0	0	0	0	3/31/2015
Texas Eastern	870172	31,225	10,500	15,500	10,500	1,895,500	4,142,500	10/31/2010
	870173	23,580	0	23,580	0	698,000	698,000	10/31/2010
	910555	4,200	4,200	4,200	4,200	634,200	1,533,000	11/30/2010
Texas Gas Transmission	T026772	40,000	0	40,000	0	6,040,000	6,295,000	3/31/2008
Trunkline Gas Company	19808	10,621	10,621	0	0	0	0	10/31/2008
	Release	5,057	0	0	0	0	0	
Propane								
				53,000	0	272,500		
TOTAL				396,280	152,200	26,356,060	39,410,000	

entitlements occurred during the audit period. These changes are summarized on Table 4.2. However, during the audit period, VEDO arranged for additional changes in its contract capacity entitlements to occur during Phase 1 of its sequential process to exit the merchant function.

4.2 Detail of Audit Period Capacity Arrangements

4.2.1 Firm Transportation Service

VEDO's firm transportation arrangements with ANR, Columbia Gas, Panhandle, Texas Eastern and Texas Gas provided for delivery of gas supplies directly to VEDO's citygate. VEDO reserved firm transportation capacity on Trunkline, which provided for the upstream delivery of gas supplies to Panhandle. VEDO's arrangement with Panhandle also provided for the upstream delivery of gas to Texas Eastern. Rates applicable under VEDO's interstate pipeline transportation arrangements included a monthly reservation charge applicable to the maximum daily delivery quantity ("MDQ"), a variable charge applicable to volumes delivered, and a fuel retention charge. During the audit period, VEDO obtained discounts from the maximum FERC-approved rates under its firm transportation arrangements with Texas Gas and Trunkline. VEDO also obtained discounts under Panhandle EFT Contract Nos. 20355 and 20848.

a. ANR Pipeline

Firm Transportation Service (Rate Schedule FTS-1). VEDO maintained a firm transportation service arrangement with ANR under Rate Scheduled FTS-1 (Contract No. 11879), until October 31, 2006, at which time VEDO terminated the arrangement. The FTS-1 arrangement provided for the delivery of gas supplies from ANR's compressor station located in Eunice, Louisiana (a major natural gas trading center commonly referred to as the "Southeast Headstation"), directly to VEDO's citygate. The MDQ under VEDO's FTS-1 contract with ANR was 5,000 Dth, providing VEDO with the ability to transport 1,825,000 Dth annually. VEDO entered into an FTS-1 contract with ANR with an MDQ of 10,000 Dth for the winter of 2008-2009.

Table 4.2

VECTREN ENERGY DELIVERY OF OHIO, Inc.
Summary of Firm Maximum Daily Quantity Contract Changes
(Dth)

Pipeline - Service	Contract Number	Winter 2005-2006	Summer 2006	Winter 2006-2007	Summer 2007	Winter 2007-2008	Summer 2008
ANR Pipeline							
Firm Transportation (FTS-1)	11879	5,000	5,000	0	0	0	0
Columbia Gas							
Storage Transportation (SST)	Various	200,000	100,000	200,000	100,000	200,000	100,000
Storage Service (FSS)	Various	200,000	200,000	200,000	200,000	200,000	200,000
Panhandle Eastern							
Firm Transportation (EFT)	20349	37,500	37,500	37,500	37,500	37,500	37,500
Firm Transportation (EFT)	20355	31,288	0	0	0	0	0
Firm Transportation (EFT)	20848	0	10,521	10,521	10,521	10,521	10,521
Firm Transportation (EFT)	Released	0	0	5,000	0	5,000	0
Firm Transportation (EFT)	Released	0	0	14,066	0	0	0
Storage Transportation (EFT)	20351	46,080	21,450	46,080	21,450	46,080	21,450
Storage Service (FS)	20350	46,704	46,704	46,704	46,704	46,704	46,704
Texas Eastern							
Firm Transportation (LLFT)	870172	31,225	10,500	31,225	10,500	31,225	10,500
Firm Transportation (LLFT)	870173	23,580	0	23,580	0	23,580	0
Firm Transportation (FT-1)	910555	4,200	4,200	4,200	4,200	4,200	4,200
Texas Gas Transmission							
Firm Transportation (STF)	T026772 T022329	40,000	2,000	40,000	2,000	40,000	0
Trunkline Gas Company							
Firm Transportation (EFT)	19424	31,585	0	0	0	0	0
Firm Transportation (EFT)	19808	0	10,621	10,621	10,621	10,621	10,621
Firm Transportation (EFT)	Released	0	0	5,042	0	5,057	0
Firm Transportation (EFT)	Released	0	0	14,184	0	0	0
Local Production							
Biomass		989	1,520	1,560	1,330	0	0
Propane		53,000	0	53,000	0	53,000	0
TOTAL CITYGATE		412,005	171,670	410,280	166,480	396,280	163,150

b. Columbia Gas Transmission

Storage Transportation Service (Rate Schedule SST). VEDO maintained a storage transportation service arrangement with Columbia Gas during the audit period under Rate Schedule SST. VEDO purchases firm storage service from Columbia Gas under Rate Schedule FSS. Storage transportation service under Rate Schedule SST was primarily utilized to transport gas to and from Columbia Gas storage facilities and VEDO's citygate. Under VEDO's SST arrangement, the primary receipt point was Columbia Gas storage, and the primary delivery point is VEDO's citygate. Secondary SST receipt and delivery points may be selected anywhere on the Columbia Gas system.¹ Using this secondary flexibility, VEDO utilized SST capacity to fill its Columbia Gas FSS storage. Gas delivered to Columbia Gas storage for injection was purchased in the Appalachian production region.

SST transportation service and FSS storage service provided VEDO with no-notice service. Daily differences between actual takes at VEDO's citygate and the nominated quantities scheduled to VEDO's citygate by VEDO and on behalf of VEDO's transportation customers under any Columbia Gas rate schedule, become no-notice injections or withdrawals under Rate Schedules FSS and SST.

The MDQ under VEDO's SST arrangement is 200,000 Dth during the months of October through March, and 100,000 Dth during the months of April through September for the entire audit period. VEDO's SST arrangement provides the ability to transport over 54,750,000 Dth annually. However, although SST capacity may be used to deliver gas to VEDO's system from receipt points other than storage on a secondary basis, SST capacity was primarily relied upon to deliver gas to and from storage and, therefore, actual annual utilization of SST capacity was less. VEDO's seasonal storage capacity entitlement under the companion FSS contract is 7,648,000 Dth. VEDO's SST arrangement with Columbia Gas was scheduled to expire March 31, 2008, but has been extended through March 31, 2013. VEDO released 3,238 Dth of SST capacity to a

¹ A shipper such as VEDO has a firm entitlement to capacity at its primary receipt and delivery points. Capacity at secondary receipt and delivery points is available on an interruptible basis.

supplier in its customer choice program during August and September 2007, and 6,475 Dth during the period October 2007 through March 2008.

c. Panhandle Eastern Pipe Line

Enhanced Firm Transportation Service (Rate Schedule EFT). VEDO maintained four separate enhanced firm transportation arrangements with Panhandle under Rate Schedule EFT (Contract Nos. 20349, 20355, 20848 and 20351). EFT service provides a shipper with the ability to take delivery at a rate of up to 150 percent of its maximum contract quantity during a particular hour. This is in contrast to firm transportation service under Panhandle Rate Schedule FT, which requires a shipper to take delivery of no more than 1/24th of its applicable contract demand during a particular hour.

EFT Contract No. 20349 provided for the delivery of Mid-Continent gas supplies directly to VEDO's citygate. These supplies could subsequently be delivered under EFT Contract No. 20351 to Panhandle's storage facilities in Michigan during the months of April through October. Citygate and storage quantities must be separately nominated. The MDQ under Contract No. 20349 during the audit period was 37,500 Dth, providing the ability to transport 13,687,500 Dth annually. Contract No. 20349 was scheduled to expire March 31, 2006, but was extended by VEDO through March 31, 2015. VEDO released 1,214 Dth of capacity under Contract No. 20349 to a supplier in its customer choice program during the period August 2007 through March 2008.

During peak winter periods, due to operating pressures, deliveries by Panhandle at the Glen Karn and Hollansburg Stations are limited to 60,000 Dth per day. EFT Contract No. 20349 and VEDO's EFT storage transportation contract (Contract No. 20351) provide for the delivery of 83,580 Dth per day. When deliveries at the Glen Karn and Hollansburg Stations are limited to 60,000 Dth, gas in excess of 60,000 Dth is delivered to Texas Eastern at an upstream location and is delivered to VEDO's Red Lion Station under Texas Eastern LLFT Contract No. 870173.

EFT Contract Nos. 20355 and 20848 provided for the delivery of gas from a Panhandle interconnect with Trunkline at Tuscola, Illinois to a Panhandle interconnect with Texas Eastern at Gas City, Indiana ("Trunkline/Panhandle/Texas Eastern delivery path"). Gas is initially transported to Panhandle under a companion Trunkline EFT arrangement. Deliveries to Texas Eastern by Panhandle are subsequently delivered to VEDO's citygate under Texas Eastern LLFT Contract No. 870172. The MDQ under Contract No. 20355 was seasonally differentiated. During the months of December through April the MDQ was 31,228 Dth and the MDQ was 10,521 Dth during the months of May through November. Contract No. 20355 expired April 30, 2006, and was replaced by Contract No. 20848, which had a year-round MDQ of 10,521 Dth. The scheduled expiration date of Contract No. 20848 was October 31, 2008. VEDO has extended the term of Contract No. 20848 for an additional year.

During the months of November 2006 through March 2007, and January and February 2008, VEDO acquired 5,000 Dth of Panhandle released capacity with delivery arrangements similar to EFT Contract Nos. 20355 and 20848. VEDO also acquired 14,066 Dth of released Panhandle capacity with the same delivery arrangements during December 2006 and January 2007. The acquired released capacity replaced the Panhandle capacity VEDO shed when Contract No. 20355 with a winter MDQ of 31,228 Dth was terminated and replaced by Contract No. 20848 which had a year round MDQ of 10,521 Dth.

VEDO utilized the firm transportation capacity reserved under EFT Contract No. 20351 to deliver gas to and from Panhandle's storage facilities. VEDO purchases storage from Panhandle under Rate Schedule FS (Contract No. 20350). Gas delivered to storage under this arrangement was generally procured in the Mid-Continent region and initially delivered to VEDO's citygate under Contract No. 20349. The MDQ under Contract No. 20351 is 46,080 Dth during the months of November through March, and 21,450 Dth during the months of April through October, providing VEDO with the ability to transport 11,548,380 Dth annually. However, because this capacity was primarily used to deliver gas to and from storage, the actual utilization of Contract No. 20351 was

significantly less. VEDO's seasonal storage capacity under FS Contract No. 20350 is 4,203,360 Dth. Contract No. 20351 was scheduled to expire March 31, 2006, but was extended by VEDO through March 31, 2015. VEDO released 1,472 Dth of capacity under Contract No. 20351 to a supplier participating in its customer choice program during the period August 2007 through March 2008.

d. Texas Eastern Transmission

Firm Transportation Service (Rate Schedule FT-1). VEDO maintained a firm transportation arrangement with Texas Eastern under Rate Schedule FT-1 during the audit period (Contract No. 910555). The MDQ under the FT-1 contract of 4,200 Dth was established prior to the audit period, and provided VEDO with the ability to transport 1,533,000 Dth annually. Gas supplies delivered under Contract No. 910555 were generally purchased in the Gulf Coast region and initially delivered to Texas Eastern under the Trunkline/Panhandle delivery path previously discussed for Panhandle EFT Contract Nos. 20355 and 20848. VEDO's FT-1 contract is used to deliver gas to the Gano Road Station.

Lebanon Lateral Firm Transportation Service (Rate Schedule LLFT).

VEDO had two audit period arrangements for Lebanon Lateral firm transportation service with Texas Eastern under Rate Schedule LLFT (Contract Nos. 870172 and 870173). Each contract was executed prior to the audit period. Contract No. 870172 provides for the delivery of gas by Texas Eastern from an interconnect with Panhandle in Gas City, Indiana to VEDO's citygate at the Red Lion Station. The MDQ under Contract No. 870172 is seasonally differentiated. During the months of December through April the MDQ is 31,225 Dth and 10,500 Dth during the months of May through November. Deliveries to Texas Eastern by Panhandle during the audit period were effectuated under Panhandle EFT Contract Nos. 20355 and 20848. Deliveries to Panhandle were effectuated under Trunkline EFT Contract Nos. 19424 and 19808 during the audit period.

Contract No. 870173 also provides for the delivery of gas supplies from Texas Eastern's interconnect with Panhandle in Gas City, Indiana to VEDO's Red Lion Station. Contract No. 870173 is a winter period contract (November through March) with an MDQ of 23,580 Dth which is utilized when gas supplies initially scheduled for delivery under Panhandle EFT Contract Nos. 20349 or 20848 to VEDO's Glen Kam and Hollensburg Stations exceed the ability of those stations to accept the scheduled deliveries.

e. Texas Gas Transmission

Short-Term Firm Transportation Service (Rate Schedule STF). VEDO purchased firm transportation service from Texas Gas under Rate Schedule STF during the audit period. Gas supplies transported under VEDO's STF capacity on Texas Gas were generally procured in the Gulf Coast region and delivered directly to the citygate. The MDQ under the STF was seasonally differentiated and provided for the delivery of 40,000 Dth during the winter months of November through March, and 2,000 Dth during the summer months of April through October. These contract quantities were established prior to the audit period, and provided VEDO the ability to transport 6,468,000 Dth annually. VEDO terminated its STF contract with Texas Gas effective May 1, 2008.

f. Trunkline Gas Company

Enhanced Firm Transportation Service (Rate Schedule EFT). VEDO maintained two enhanced firm transportation arrangements with Trunkline under Rate Schedule EFT (Contract Nos. 19424 and 19808) during the audit period. Both arrangements provided for the delivery of gas supplies from the Gulf Coast region to Panhandle at Tuscola, Illinois. Final delivery of these gas supplies to VEDO's citygate was effectuated by Texas Eastern under LLFT Contract No. 87072. Established prior to the audit period, the MDQ under Contract No. 19424 was 31,225 Dth during the months of December through April, and 10,621 Dth during all other months. Contract No. 19424 expired April 30, 2006, and was replaced by Contract No. 19808, which had a year-round MDQ of 10,621 Dth. The scheduled expiration date of Contract No. 19808

was October 31, 2008. VEDO has extended the term of Contract No. 19808 for an additional year.

During the months of November 2006 through March 2007, and January and February 2008, VEDO acquired 5,042 Dth of Trunkline released capacity with delivery arrangements similar to EFT Contract Nos. 19424 and 19808. VEDO also acquired 14,184 Dth of released Trunkline capacity with the same delivery arrangements during December 2006 and January 2007. The acquired released capacity replaced the Trunkline capacity VEDO shed when Contract No. 19424 with a winter MDQ of 31,585 Dth was terminated and replaced by Contract No. 19808 which had a year-round MDQ of 10,521 Dth.

4.2.2 Storage Service

VEDO subscribed to unbundled firm interstate pipeline contract storage service from both Columbia Gas and Panhandle during the audit period. VEDO paid the maximum FERC-approved rates for these services. VEDO also maintained three on-system propane-air peak shaving storage facilities.

a. Columbia Gas Transmission

Firm Storage Service (Rate Schedule FSS). VEDO purchased firm storage service from Columbia Gas under Rate Schedule FSS during the audit period. FSS storage service, in combination with Columbia Gas transportation capacity under Rate Schedule SST, provided VEDO with no-notice service. Daily differences between actual takes at VEDO's citygate and the nominated quantities scheduled to VEDO's citygate by VEDO and its transportation customers under any Columbia Gas transportation rate schedule become no-notice injections or withdrawals under Rate Schedules FSS and SST. In addition to accommodating daily imbalances between actual takes at its citygate and nominated deliveries, VEDO utilized FSS service for seasonal load management purposes and to benefit from seasonal price differences.

The maximum daily storage withdrawal quantity ("MDWQ") under Rate Schedule FSS is 200,000 Dth. The maximum daily injection quantity ("MDIQ") is 100,000 Dth. The seasonal contract storage quantity ("SCQ") is 7,648,000 Dth. This provided VEDO with 38 days of maximum withdrawal capabilities. VEDO's FSS arrangement with Columbia Gas was scheduled to expire March 31, 2008, but has been extended through March 31, 2013. For the period August 2007 through March 2008, VEDO released 6,475 Dth of FSS to a supplier participating in the Company's customer choice program.

Rate Schedule FSS provides for maximum daily and monthly injection volumes. Generally, as storage is filled, the volumes permitted for injection, both daily and monthly, are reduced. Conversely, as storage volumes are withdrawn, daily and monthly injection quantities increase. The maximum daily and monthly injection quantities under Columbia Gas' FSS rate schedule are as follows:

Month	Maximum Injection Quantity (Dth)	
	Daily	Monthly
November	12,747	382,424
December	25,495	764,848
January-March	30,594	764,848
April	45,891	1,147,272
May-August	61,188	1,529,697
September	39,772	994,303
October	21,416	535,394

The maximum daily withdrawal quantity declines as the amount of gas in storage inventory declines by the following ratchets:

Storage Inventory	MDWQ		
Dth	Percent of SCQ	Dth	Percent of MDWQ
7,648,000 - 2,294,545	100 to 30%	200,000	100%
2,294,545 - 1,529,697	30 to 20%	160,000	80%
1,529,697 - 764,848	20 to 10%	130,000	65%
764,848 - 0	10 to 0%	100,000	50%

In addition, maximum and minimum net monthly withdrawal quantity restrictions are imposed by Columbia Gas during the winter season as follows:

Month	Withdrawals (Dth)	
	Maximum	Minimum
November	3,059,393	None
December	3,059,393	None
January	3,059,393	None
February	2,294,545	764,848
March	1,529,697	764,848

Finally, storage inventory levels must be limited to 65 percent of the SCQ on February 1; 25 percent of SCQ on April 1; 60 percent of SCQ as of June 1; and 85 percent of SCQ as of August 31. Failure to adhere to Columbia Gas' storage injection and withdrawal and inventory restrictions may result in the assessment of penalty charges. Monthly charges for FSS service include a deliverability charge applicable to the maximum daily withdrawal quantity, a capacity charge applicable to the seasonal capacity reservation amount, variable charges applicable to injection and withdrawal quantities and a charge for storage losses.

b. Panhandle Eastern Pipe Line

Flexible Storage Service (Rate Schedule FS) VEDO purchased firm storage service under Rate Schedule FS during the audit period (Contract No. 20350). The maximum daily injection quantity under VEDO's FS arrangement, applicable during

the months of April through October, is 21,450 Dth. The maximum daily withdrawal quantity, applicable during the months of November through March, is 46,704 Dth. The seasonal capacity reservation is 4,203,360 Dth. This provided VEDO with 90 days of maximum withdrawal capabilities. Gas supplies injected into storage or withdrawn from storage are delivered under Panhandle EFT Contract No. 20349. Contract No. 20350 was scheduled to expire March 31, 2006, but has been extended by VEDO through March 31, 2015.

The maximum daily withdrawal quantity available under Rate Schedule FS declines as the amount of gas in storage inventory declines by the following ratchets:

Storage Inventory		MDWQ	
Dth	Percent of SCQ	Dth	Percent of MDWQ
4,203,360 - 261,008	100 to 30%	46,704	100%
1,261,007 - 420,336	30 to 10%	35,028	75%
420,335 - 0	10 to 0%	28,022	60%

In addition, VEDO is required to reduce its storage inventory level to 20 percent of its seasonal contract quantity by April 1 of each year to avoid the assessment of penalty charges. Monthly charges for FS service included a deliverability charge applicable to the MDWQ, a seasonal capacity charge applicable to one-twelfth of the seasonal capacity reservation amount, variable charges applicable to injection and withdrawal quantities and a charge for storage losses.

c. On-System Storage

Propane. VEDO operates three propane peak shaving facilities with a maximum daily deliverability of 53,000 Dth. For planning purposes, the total capacity associated with VEDO's propane facilities is approximately 272,500 Dth. This provides VEDO with 5 days of maximum withdrawal capabilities. However, VEDO's propane facilities may be refilled during the winter and, therefore, the associated seasonal capacity can be increased beyond the 272,500 Dth amount.

The auditor which conducted VEDO's prior management audit recommended that VEDO analyze whether the vaporization capacity of its propane facilities could be economically expanded and displace pipeline or storage capacity. To address this recommendation, VEDO engaged Standby Systems, Inc. to assist in determining the estimated costs of an expansion of its propane facilities' vaporization capacity by 10,000 Dth per day. Based on the estimated costs of the expansion and the unit rate per Dth produced from the propane facilities, VEDO concluded that an expansion of its propane vaporization capacity would far exceed the current costs of acquiring winter season pipeline capacity and supply, and would be, therefore, uneconomic.

4.2.3 Gas Supply Arrangements

VEDO's gas supply purchases during the audit period were generally made under three types of arrangements:

- **First-of-the-Month Index:** VEDO selects a constant, or baseload, quantity which is purchased on each day of the month. The purchase quantity can range from zero to the full contract quantity.
- **Daily Swing:** VEDO has the option during the month to select the purchase quantity on a daily basis. The purchase quantity can range from zero to the full contract quantity.
- **Advance Purchases:** VEDO purchases gas at forward fixed prices up to 24 months in advance of the month of delivery. VEDO takes delivery of an agreed upon fixed daily quantity during the month.

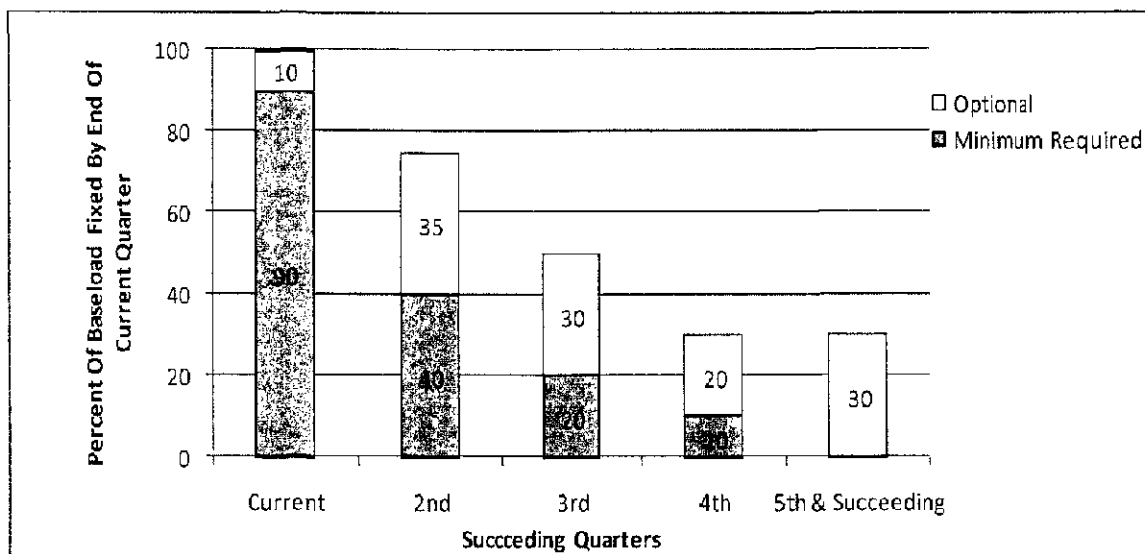
First-of-the-month index supplies were priced at an applicable first-of-the-month index price published in *Inside F.E.R.C.* Daily swing supplies were priced at an applicable daily index price published in *Gas Daily*. These gas purchase agreements may have required the payment of a small reservation charge or included a small premium or discount to the commodity index price.

VEDO solicited for first-of-the-month and daily swing gas supplies through a monthly RFP process conducted approximately one week prior to the month of delivery. VEDO also solicited for multi-month arrangements to meet a portion of its winter period requirements

during the audit period. VEDO did not generally purchase spot market gas supplies (i.e., from suppliers not participating in the monthly RFP process).

a. Price Volatility Mitigation Program

VEDO's advance purchases were part of the Company's price volatility mitigation program which was designed to reduce the volatility of its GCR rates. VEDO's price mitigation program provided for advance purchases equal to 90 to 100 percent of the Company's monthly baseload purchases which total approximately 12.0 Bcf per year.² The Company's advance purchase time and quantity targets are as follows:



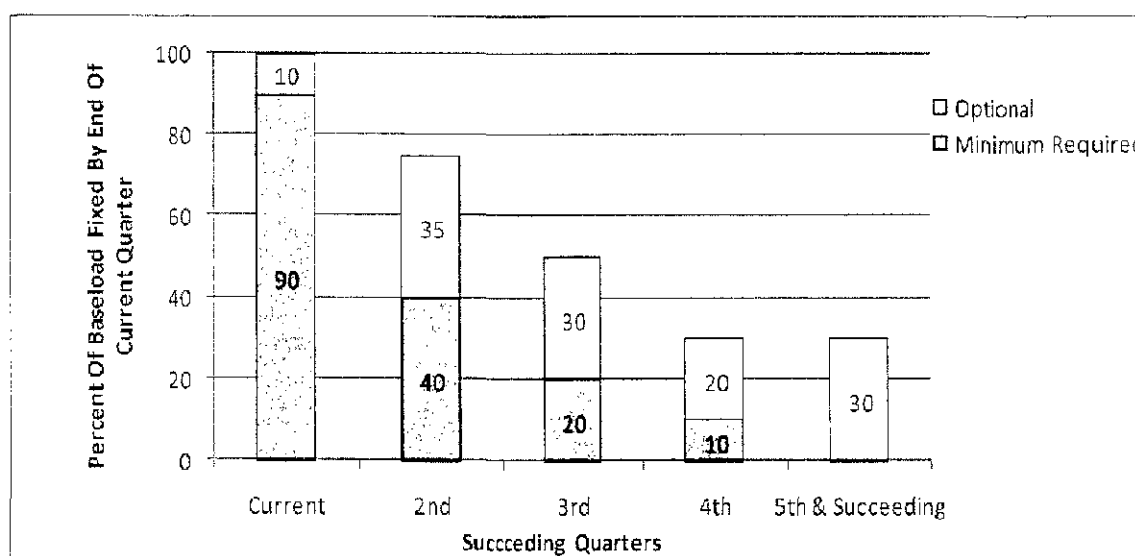
VEDO's price mitigation program also utilized financial hedging instruments (i.e., call options) to cap the price of storage refill purchases up to two summer seasons in advance. VEDO's price mitigation program provided for the financial hedging of 85 percent of the Company's storage refill purchases which total approximately 10.8 Bcf per year. The Company's financial hedging time and quantity targets were as follows:

² Baseload purchases represent the amount of gas demand independent of weather plus storage injection quantities.

during the audit period. VEDO did not generally purchase spot market gas supplies (i.e., from suppliers not participating in the monthly RFP process).

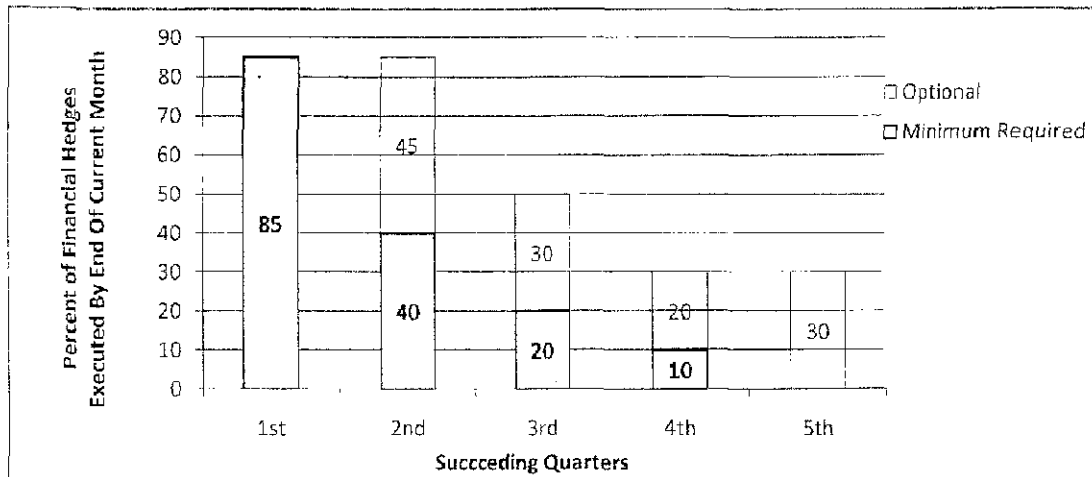
a. Price Volatility Mitigation Program

VEDO's advance purchases were part of the Company's price volatility mitigation program which was designed to reduce the volatility of its GCR rates. VEDO's price mitigation program provided for advance purchases equal to 90 to 100 percent of the Company's monthly baseload purchases which total approximately 12.0 Bcf per year.² The Company's advance purchase time and quantity targets are as follows:



VEDO's price mitigation program also utilized financial hedging instruments (i.e., call options) to cap the price of storage refill purchases up to two summer seasons in advance. VEDO's price mitigation program provided for the financial hedging of 85 percent of the Company's storage refill purchases which total approximately 10.8 Bcf per year. The Company's financial hedging time and quantity targets were as follows:

² Baseload purchases represent the amount of gas demand independent of weather plus storage injection quantities.



The hedging percentage goals of VEDO's price mitigation program were as follows:

- Purchase 65 percent of normal weather annual volumes at hedged prices;
- Purchase 35 percent of normal weather annual volumes at market prices; and
- Purchase 75 percent of winter volumes at hedged prices.

VEDO's price volatility mitigation program did not provide for a systematic, dollar cost averaging, approach to hedging, although it did utilize time targets with specified minimum and maximum levels. The Company's relied on a number of industry publications, market intelligence and experience to guide its purchasing decisions within the time targets.

VEDO's advance purchases for the audit period were approximately \$29.9 million higher than the comparative *Inside F.E.R.C.* first-of-the month index prices for the respective pricing points. The financial hedging component of VEDO's price mitigation program increased GCR costs by \$1.0 million. Thus, the overall impact of VEDO's price mitigation program was an increase of \$30.9 million in GCR costs. The auditor conducting VEDO's prior management audit reported that VEDO's price mitigation program decreased GCR costs by \$25.9 million during the period November 2002 through October 2005. VEDO terminated its price mitigation program effective April 1, 2008 in anticipation the initiation of its plan to ultimately exit from the merchant function.

b. Local Ohio Production

The gas producing regions in Ohio are generally located in the eastern and central regions of the state. VEDO's service area includes the west-central portion of the state. There is virtually no gas production in the west-central portion of the state. There is no practical ability for VEDO to procure gas that is produced in its service area on a delivered basis. VEDO may purchase Ohio-produced gas which is produced in other regions of the state and delivered to VEDO by interstate pipelines; however, these purchases cannot be quantified. It is VEDO's procurement policy to purchase gas at the lowest delivered cost and, therefore, the Company does not differentiate between Ohio-produced gas supplies or any other supplies.

VEDO purchased approximately 750,000 Dth of biomass gas produced from a land fill operation located behind its citygate during the audit period. The facility was operated by Pinnacle Gas Producers. During the period November 2005 through October 2006, ProLiance purchased the gas from Pinnacle and resold it to VEDO. This purchase arrangement was a remnant from the pre-audit period when ProLiance provided asset management services to VEDO. After October 2006, VEDO purchased the gas directly from Pinnacle. VEDO terminated this arrangement October 31, 2007, in anticipation of the initiation its plan to exit the merchant function.

4.2.4 Asset Management Agreements

Effective November 1, 2005, VEDO entered into an agreement between *Sequent Energy Management, L.P. and Vectren Energy Delivery of Ohio, Inc. for Portfolio Management Services and the Purchase of Natural Gas* ("asset management agreement" or "AMA"). Under the AMA, which had a one-year term, VEDO released all of its interstate pipeline transportation and storage capacity contracts to Sequent. Sequent managed and utilized the capacity to meet VEDO's gas supply requirements. Sequent was entitled to utilize any unutilized VEDO capacity to pursue its own business interests. Each day VEDO determined the quantity of gas it would purchase from each supplier by delivering pipeline and the associated costs as well as storage injection and withdrawal activity ("economic dispatch"). VEDO was responsible for all of the pipeline reservation charges associated with the capacity released to Sequent and for pipeline variable charges based upon economic

dispatch. VEDO was paid a monthly management fee by Sequent. The management fee and other aspects of the AMA are confidential. Similar AMAs were executed between VEDO and Sequent for the periods November 1, 2006 through October 31, 2007; November 1, 2007 through March 31, 2008; and April 1, 2008 through September 30, 2008. The asset management arrangements with Sequent were awarded through a competitive RFP process.

4.3 Balance of Capacity Resources and Customer Requirements

4.3.1 Design Peak Day

VEDO secured sufficient capacity resources to meet the forecasted design peak day requirements of its GCR customers and of those customers which selected standby service. To determine its capacity resource requirements VEDO initially forecasts total system design peak day requirements utilizing a daily demand linear regression model. The model specifies daily demand as a function of independent variables which include:

- Current day heating degree days (65°F base)
- Current day heating degree days (55°F base)
- Prior day heating degree days (55°F base)
- Wind speed
- Day of the week variable for Friday, Saturday and Sunday; and
- Holiday variable.

The forecasted design peak day requirements of transportation customers, including customer choice program customers, are subtracted from total system requirements to determine GCR design peak day capacity requirements. The forecasted design peak day demands of large transportation customers are based on the maximum daily delivery obligation specified in the contract for service which the transportation customer must execute with the Company. The forecasted demands of choice customers are individually prepared for each choice supplier using a linear regression analysis based on the actual monthly historical usage of the supplier's customers. Separate forecasts

are prepared for each supplier because the usage characteristics of the customers of each supplier differ, and may differ from that of GCR customers.

A company-specific requirement of this audit is to verify that VEDO has examined its design peak day criteria to determine the appropriateness of the criteria's applicability and values for use in the modeling of VEDO's design peak day sendout for gas supply planning purposes. Examination of VEDO's design peak day criteria was required by the Stipulation and Recommendation approved by the Commission in the Company's prior management performance audit (Case Nos. 04-220-GA-GCR and 05-220-GA-GCR).

Our audit revealed that VEDO has examined its design peak day criteria as required. As a result of its examination, VEDO slightly modified its design peak day criteria for the winter of 2007-2008 as shown on Table 4.3. VEDO's analysis assigned a joint probability of the occurrence of its design peak day criteria to be 3 percent.

Table 4.3		
VECTREN ENERGY DELIVERY OF OHIO, Inc.		
Design Peak Day Weather Criteria		
Variable	Winter Season	
	2005/2006 2006/2007	2007/2008
Peak Day Temperature	-14.5° F	-14.5° F
Prior Day Temperature	-1.0° F	11.5° F
Wind	18.4 mph	16.3 mph

The 3 percent design peak day probability of occurrence selected by VEDO can be considered conservative by industry standards. Gas utilities typically select design peak day criteria with a 5 to 10 percent probability of occurrence. In VEDO's design peak day forecasting model, current day temperature has the most significant impact on sendout. The current design peak day temperature criterion selected by VEDO has a 6.7 percent probability of occurrence, which is within the probability range used by other gas utilities. It is the addition of VEDO's other design peak day variables (i.e., wind

speed and prior day temperature) which decrease the joint probability of occurrence. Our analysis reveals that adjusting the other design peak day variables to increase the joint probability of occurrence to exceed 5 percent would reduce the Company's design peak day forecast by less than 10,000 Dth, or less than 2 percent. Given the small increase in VEDO's projected design peak day requirements and the uncertainty associated with design peak day forecasting, we do not believe VEDO's design peak day criteria to be unreasonable.

A comparison of total system (sales and transportation customer) actual peak day requirements and forecasted requirements under actual weather conditions provides an indication of the predictive capability of a gas utility's design peak day forecasting model. Table 4.4 illustrates the Company's ability to forecast peak day requirements under actual peak day conditions. The projected peak day requirements reflected on Table 4.4 are based upon the model relied upon by VEDO to forecast design peak day demands for the applicable winter season. Table 4.4 reveals that VEDO's model has reasonably estimated peak day requirements and, therefore, is likely to provide a reasonable estimate of design peak day requirements.

Table 4.4 VECTREN ENERGY DELIVERY OF OHIO, Inc. Comparison of Total Projected and Actual Peak Day Requirements (Mcf)				
Winter Season	Actual	Projected	Deviation	Percent
2005 – 2006	467,683	433,714	(33,969)	(7.3%)
2006 – 2007	488,239	507,208	18,969	3.9%
2007 – 2008	445,677	445,975	298	0.7%

A comparison of GCR customer design peak day requirements and the capacity resources available to meet those requirements during the audit period is presented on Table 4.5. The capacity resources identified in Table 4.5 reflect those from Table 4.2. As shown on Table 4.5, VEDO's design peak day requirements slightly exceeded its

capacity resources during the 2005-2006 and 2006-2007 winter seasons. VEDO may also have available on design day approximately 10,000 Dth of line pack as a capacity resource which is not included in its capacity resource totals.

Table 4.5 VECTREN ENERGY DELIVERY OF OHIO, Inc. Comparison of GCR Design Peak Day Requirements and Capacity Resources (Dth)			
	Winter Season		
	2005-2006	2006-2007	2007-2008
Capacity Resources	412,005	401,119 ^(a)	396,280
Capacity Requirements	422,813	420,250	393,345
Excess / (Deficiency)	(10,808)	(19,131)	2,935
^(a) Adjusted for capacity release of 9,161 Dth.			

4.3.2 Winter Season Capacity Resources and Requirements

VEDO utilizes a severe winter which is 15 percent colder-than-normal for winter season capacity planning purposes. VEDO utilizes economic modeling to forecast the number of customers served and usage per customer to develop its projections of winter season as well as annual requirements. The severe winter season requirements of VEDO's firm sales customers were approximately 26,400,000 Dth. As shown in Table 4.1, VEDO's winter season firm citygate capacity entitlements total approximately 26,356,060 Dth. Approximately 50 percent of VEDO's winter season requirements are supported by gas supplies delivered from storage, and the remaining 50 percent is supported by flowing supplies.

4.3.3 Annual Capacity Resources and Requirements

During a year in which a severe winter is experienced, the annual gas supply requirements of VEDO's firm sales customers are approximately 34,000,000 Dth. VEDO has in place firm capacity resources sufficient to deliver approximately

39,410,000 Dth. This reflects an excess of 5,410,000 Dth, or 15 percent, and compares favorably to the excess annual deliverability of most LDCs.

4.4 Exit of Merchant Function

A local gas distribution company's purchase of natural gas supplies for delivery to its retail GCR sales service customers, as opposed to solely the provision of delivery service to transportation customers, is referred to as the "merchant function." For the past several years merchant function deliveries have accounted for a little more than 50 percent of total system throughput. On December 21, 2007, VEDO filed an application with the Commission to begin the process of exiting the merchant function (Case No. 07-1285-GA-EXM). A Stipulation and Recommendation ("Stipulation") concerning VEDO's application was filed with the Commission on February 4, 2008, and the Stipulation was approved by the Commission by entry journalized April 30, 2008.

The process proposed by VEDO in its application to exit the merchant function consists of three phases: Phase 1, Phase 1.5 and Phase 2. VEDO's application requested, and the Stipulation provided for, approval of Phases 1 and 1.5. Phase 1 provided for the elimination of VEDO's existing GCR mechanism and implementation of a new standard sales offer ("SSO") rate. Under Phase 1, VEDO is to purchase all of its natural gas supplies from suppliers who win the right to serve undifferentiated portions of total system requirements through an auction process that would establish the mechanism by which the SSO price is calculated. VEDO would continue to provide natural gas commodity service to its sales customers at its cost of acquiring those supplies, and customers would continue to have the freedom to choose between VEDO's sales service and service from a competitive supplier under its customer choice program. Phase 1 was implemented on October 1, 2008, and is currently expected to extend through March 31, 2010. These dates differ from those included in the application and Stipulation due to delays in receiving certain authorizations from the FERC.

Phase 1.5 would be similar to Phase 1, except that each sales customer's bill would indicate the competitive supplier providing the customer's gas supply. For Phase 1.5 of the process, approximately six weeks prior to the conclusion of Phase 1, VEDO would conduct a standard choice offer ("SCO") service auction similar to the SSO auction conducted under Phase 1. The initial SCO period would cover 12 months. Under Phase 1.5, the loads of all former SSO service customers, except for percentage of income payment plan ("PIPP") customers, would be assigned to specific auction determined competitive suppliers who will then be the customers' SCO service suppliers. The loads of PIPP customers will be served on a proportionate basis by all SCO service suppliers.

Under Phase 2, which was not included in VEDO's application or the Stipulation, VEDO envisions a direct relationship between the customer and a given competitive supplier. If a settlement on the terms and conditions of Phase 2 has not been approved by the Commission at least six weeks prior to the conclusion of the second SCO period, another SCO service auction will be held.

The SSO auction process provided for under Phase 1 was conducted in August 2008. The auction provided for the combined bidding of PIPP and GCR load requirements in six portions, or tranches. Suppliers were entitled to bid on the desired number of tranches based on a fixed adjustment ("Retail Price Adjustment") to the New York Mercantile Exchange ("NYMEX") monthly settlement price. The auction was conducted utilizing a descending clock format. Under this format, a bid price is announced and each bidder identifies the number of tranches it is willing to serve at that price. If the number of tranches bidders are willing to serve exceeds the number of tranches available (six), the bid price is reduced and a new round of bidding is conducted. The bid price is reduced until the number of tranches bidders are willing to serve is equal to the number of tranches available. The auction process resulted in a monthly SSO rate equivalent to the monthly NYMEX settlement price plus a fixed adjustment of \$2.35 per Mcf. Four suppliers are participating in Phase 1, along with the

customer choice program suppliers. Suppliers participating in Phase 1 are assigned a pro rata share of VEDO's interstate pipeline capacity.

Although VEDO is in the process of exiting the merchant function, VEDO will continue to prepare an annual design peak day forecast. The forecast will be utilized to ensure that suppliers serving former GCR and choice customers maintain, either through assignment by VEDO or by contracting directly, sufficient firm interstate pipeline capacity with primary delivery points to the Company's citygates. VEDO's future interstate pipeline contracting decisions will be reached through consensus with suppliers. We believe that this approach is appropriate, will promote the development of alternatives to traditional utility service and maintain service reliability.

4.5 Conclusions and Recommendations

4.5.1 Capacity Portfolio

VEDO engaged New Energy Associates, LLC ("NEA") to perform an interstate pipeline capacity planning and optimization study for its firm capacity portfolio in 2004. The NEA study assisted VEDO in reconfiguring its firm capacity portfolio with new services starting November 1, 2004 and April 1, 2005. The reconfigured capacity portfolio satisfied the forecasted design peak day, winter season and annual gas supply requirements of GCR customers while minimizing periods during which capacity was unutilized.

4.5.2 Asset Management Agreement

Throughout the audit period, VEDO operated under asset management agreements ("AMA") with Sequent Energy Management, L.P. ("Sequent"). Under the AMAs, VEDO released all of its interstate pipeline capacity to Sequent, which managed and utilized the capacity to meet VEDO's gas supply requirements. Sequent was entitled to utilize any unutilized VEDO capacity to pursue its own business interests. Each day VEDO determined the quantity of gas it would purchase from each of its suppliers by delivering pipeline and its storage injection and withdrawal activity

("economic dispatch"). VEDO was responsible for all of the pipeline reservation charges associated with the capacity released to Sequent, and for pipeline variable charges based on economic dispatch.

VEDO reported no concerns operating under the AMA with Sequent, nor Sequent's management of VEDO's capacity. VEDO was paid a monthly management fee by Sequent, 85 percent of which was subsequently credited to GCR customers. The fee was determined through a competitive RFP process, and exceeded the fee which was paid to VEDO under prior AMAs which were not awarded through a competitive RFP process. Although VEDO's restructured capacity portfolio minimized the availability of unutilized capacity, all unutilized capacity was assigned to Sequent under the AMA, thereby maximizing the utilization of VEDO's capacity. The AMA provided a significant benefit to GCR customers.

4.5.3 Design Peak Day Forecasting – GCR Customers

VEDO secured sufficient capacity resources to meet the forecasted design peak day requirements of its GCR customers during the audit period. To determine its capacity resource requirements, VEDO initially forecasts total system design peak day requirements utilizing a daily demand linear regression model. The model specifies daily demand as a function of independent variables which include temperature, wind speed, day of the week and adjustments for holidays. The forecasted design peak day requirements of transportation customers, including customer choice program customers, are subtracted from total system requirements to determine the design peak day capacity requirements of GCR customers. Through a comparison of total system actual peak day requirements and forecasted requirements under actual weather conditions, our audit revealed that VEDO's model reasonably estimated total peak day requirements and, therefore, is likely to provide a reasonable estimate of design peak day requirements. Our audit further revealed that VEDO maintained a reasonable balance between the forecasted design peak day requirements of GCR customers and GCR capacity resources during the audit period.

4.5.4 Design Peak Day Forecasting – Choice Customers

VEDO individually forecasts the design peak day requirements of the customers served by each choice supplier based on the actual historical monthly usage of the customers served by each supplier. This differs from the approach used to forecast GCR design peak day requirements which relies on daily sendout information. An alternative approach to forecasting choice design day demands is necessary because daily information is not available for choice customers. It is also reasonable because the load characteristics of the customers served by each supplier may differ. A comparison of the daily forecasts prepared by VEDO for choice customers and the actual usage of choice customers on an annual basis reveal that VEDO's choice forecasts have been reasonable.

4.5.5 Design Peak Day Planning Criteria

A company-specific requirement of this audit is to verify that VEDO has examined its design peak day criteria to determine the appropriateness of the criteria's applicability and values for use in the modeling of VEDO's design peak day sendout for gas supply planning purposes. Examination of VEDO's design peak day criteria was required by the Stipulation and Recommendation approved by the Commission in the Company's prior management performance audit (Case Nos. 04-220-GA-GCR and 05-220-GA-GCR).

Our audit revealed that VEDO has examined its design peak day criteria as required. As a result of its examination, VEDO slightly modified its design peak day criteria for the winter of 2007-2008, increasing the value of the prior day's temperature variable and reducing the value of the windspeed variable. These changes increased the probability of occurrence of VEDO's design peak day criteria. VEDO's analysis assigned a joint probability of the occurrence of its design peak day criteria to be 3 percent.

The 3 percent design peak day probability of occurrence selected by VEDO can be considered conservative by industry standards. Gas utilities typically select design peak day criteria with a 5 to 10 percent probability of occurrence. In VEDO's design

peak day forecasting model, current day temperature has the most significant impact on sendout. The current design peak day temperature criterion selected by VEDO has a 6.7 percent probability of occurrence, which is within the probability range used by other gas utilities. It is the addition of VEDO's other design peak day variables (i.e., wind speed and prior day temperature) which decrease the joint probability of occurrence. Our analysis reveals that adjusting the other design peak day criteria to increase the joint probability of occurrence to exceed 5 percent would reduce the Company's design peak day forecast by less than 10,000 Dth, or less than 2 percent. Given the small increase in VEDO's projected design peak day requirements and the uncertainty associated with design peak day forecasting, we do not believe VEDO's design peak day criteria to be unreasonable.

4.5.6 Future Capacity Acquisitions

Although VEDO is in the process of exiting the merchant function, VEDO will continue to prepare an annual design peak day forecast. The forecast will be utilized to ensure that suppliers serving former GCR and choice customers maintain, either through assignment by VEDO or by contracting directly, sufficient firm interstate pipeline capacity with primary delivery points to the Company's citygates. VEDO's future interstate pipeline contracting decisions will be reached through consensus with suppliers. We believe that this approach is appropriate, will promote the development of alternatives to traditional utility service and maintain service reliability.

4.5.7 Propane Facility Expansion

The auditor which conducted VEDO's prior management audit recommended that VEDO analyze whether the vaporization capacity of its propane facilities could be economically expanded and utilized to displace pipeline or storage capacity. To address this recommendation, VEDO engaged Standby Systems, Inc. to assist in determining the estimated costs of an expansion of its propane facilities' vaporization capacity by 10,000 Dth per day. Based on the estimated costs of the expansion and the unit rate per Dth produced from the propane facilities, VEDO concluded that the costs associated with an expansion of its propane vaporization capacity would far exceed the current costs of acquiring winter

season pipeline capacity and supply, and would be, therefore, uneconomic. Exeter concurs with VEDO's analysis and conclusion.

5. AUDIT PERIOD CAPACITY UTILIZATION AND PROCUREMENT ACTIVITY

This chapter presents a discussion of VEDO's capacity utilization and gas supply procurements during the audit period. The first section of this chapter summarizes the Company's audit period gas supply purchases and GCR sales. Section 5.2 presents an analysis of the locational differences in gas prices. Section 5.3 discusses how the Company uses its capacity resources to procure gas supplies as well as the Company's gas supply procurement planning process. The next section of this chapter discusses the capacity resources utilized to meet each winter season peak day experienced during the audit period. VEDO's gas supply commodity purchases and hedging activities are discussed in Section 5.5. Storage operations are discussed in Section 5.6, and VEDO's capacity release and off-system sales activities are addressed in Section 5.7. Section 5.8 addresses lost and unaccounted-for gas and company use gas. The final section presents our conclusions and recommendations.

5.1 Summary of Purchases and Sales

The Company purchased more than 87,000,000 Dth of natural gas during the November 2005 through September 2008 audit period. A portion of these purchases were utilized to meet pipeline fuel retention requirements, which ranged from 2 to 6 percent. Gas supplies purchased by VEDO may be utilized to meet current GCR customer demands, or injected into storage. Table 5.1 summarizes the Company's audit period gas supply purchases sourced by pipeline. The quantities identified on Table 5.1 reflect the pipeline of initial receipt, or the pipeline on which VEDO first takes title to the gas. Those purchases may have been subsequently delivered to VEDO's citygate by another pipeline. For example, certain purchases on Trunkline may subsequently be delivered to VEDO by Panhandle and Texas Eastern.

Table 5.1 reveals that Panhandle was the pipeline of first receipt for 45 percent of VEDO's audit period purchases. VEDO sourced 25 percent of its gas supply purchases on Columbia Gas. Purchases from Texas Gas accounted for 19 percent of GCR customer requirements.

Table 5.1

VECTREN ENERGY DELIVERY OF OHIO, Inc.
Summary of Audit Period Purchases by Source
(Dth)

Month	ANR	Columbia Gas	Local Ohio	Panhandle	Texas Gas	Trunkline	Total
November 2005	122,565	0	29,592	1,183,560	608,205	212,230	2,156,152
December	158,317	0	27,498	1,223,012	1,195,080	1,003,249	3,607,156
January 2006	158,317	0	30,033	1,221,059	1,079,766	435,291	2,924,466
February	142,995	0	24,997	1,103,029	1,009,978	238,356	2,519,355
March	158,317	0	22,250	1,221,360	749,839	222,155	2,373,921
April	152,460	919,020	25,419	1,145,194	368,338	143,526	2,753,957
May	157,542	819,564	36,217	1,219,185	63,984	297,687	2,594,179
June	0	612,750	45,612	1,146,421	61,920	38,940	1,905,643
July	0	668,924	39,307	1,090,135	63,984	40,238	1,902,588
August	5,082	949,747	37,664	883,754	63,984	40,238	1,980,469
September	30,328	612,750	36,340	845,215	61,918	38,940	1,625,491
October	157,569	777,164	38,783	1,040,005	59,985	269,102	2,342,608
November	0	0	39,605	1,176,169	889,530	215,400	2,320,704
December	0	0	48,347	1,219,982	863,305	341,243	2,472,877
January 2007	0	0	26,492	1,212,854	911,759	263,470	2,414,575
February	0	541,275	21,941	1,158,812	1,164,616	409,420	3,296,064
March	0	173,615	37,804	1,215,353	655,925	467,951	2,550,648
April	0	979,488	39,893	1,178,220	818,160	142,685	3,158,446
May	0	1,669,306	34,807	1,189,439	63,395	96,157	3,053,104
June	0	1,331,444	20,798	1,180,350	61,350	38,590	2,632,532
July	0	1,153,422	31,654	1,219,636	25,899	39,866	2,470,477
August	0	1,219,229	14,322	1,045,909	3,070	39,203	2,321,733
September	0	1,275,360	25,290	870,528	15,328	38,577	2,225,083
October	0	494,830	22,952	778,839	15,809	39,866	1,352,296
November	0	0	0	1,150,049	990,634	199,723	2,340,406
December	0	0	0	1,153,083	1,275,874	334,545	2,763,502
January 2007	0	0	0	1,189,425	971,010	271,654	2,432,089
February	0	0	0	1,112,730	919,176	285,626	2,317,532
March	0	0	0	1,189,500	1,156,647	336,105	2,682,252
April	0	1,440,830	0	1,186,710	260,670	278,670	3,166,880
May	0	1,332,718	0	1,203,044	0	64,387	2,600,149
June	0	1,400,140	0	1,182,378	0	38,940	2,621,458
July	0	1,492,692	0	1,226,267	0	40,238	2,759,197
August	0	1,246,820	0	1,226,266	0	39,635	2,512,721
September	0	1,127,920	0	1,071,330	0	20,635	2,219,885
Total	1,243,492	22,239,008	757,617	39,658,802	16,449,138	7,022,538	87,370,595
Percent	1%	25%	1%	45%	19%	8%	100%

Appendix C of the audit report identifies in detail VEDO's actual utilization of capacity resources to deliver gas supplies to its system and the associated costs for each month of the audit period. Appendix C also identifies VEDO's monthly gas supply purchases and the associated costs by delivering pipeline.

Table 5.2 identifies monthly sales by customer class during the audit period. In addition to these sales, VEDO sold 1,151,375 Dth of storage in-place to suppliers participating in the customer choice program and to suppliers in conjunction with exiting the merchant function. VEDO also sold gas to choice suppliers and large general transportation customers or their suppliers to cure imbalances. These imbalance sales are discussed further in Chapter 6 of the audit report.

5.2 Gas Price Locational Differentials

Table 5.3 identifies the price differences which exist between the primary delivered-to-pipeline locations at which VEDO purchased its gas supplies during the audit period. These differences reflect, among other things, the cost of transporting gas supplies from a particular index location to a market area, and the economics specific to the particular producing region of an index location. Shown on Table 5.3 is an average of prices applicable at each delivered-to-pipeline index location during the audit period. For example, the table shows that the average price paid for gas delivered to Panhandle by market participants during the period was \$6.78 per Dth. Price relationships between VEDO's primary delivered-to-pipeline locations can and do change due to a number of factors.

Table 5.3 further shows the applicable variable citygate price for gas purchased at the various delivered-to-pipeline locations. The variable citygate price includes the cost of purchasing gas at a particular index location plus the variable pipeline transportation costs incurred to deliver the gas to VEDO's citygate and the applicable fuel retention charge. Table 5.3 reveals that, on average, gas supplies delivered by

Table 5.2

VECTREN ENERGY DELIVERY OF OHIO, Inc.
Summary of Audit Period Sales Volumes
(Mcf)

Month	Residential	General	Large General	Dual Fuel	Total
November 2005	1,156,265	502,880	101,818	(96)	1,760,867
December	2,868,825	1,261,011	142,205	566	4,272,607
January 2006	3,362,888	1,539,005	162,036	848	5,064,777
February	2,750,593	1,277,134	140,825	683	4,169,235
March	2,936,947	1,287,685	141,550	629	4,366,811
April	1,955,083	872,757	100,118	1,068	2,929,026
May	823,291	381,896	59,660	128	1,264,975
June	580,357	297,341	82,187	104	959,989
July	364,640	239,969	95,211	(38)	699,782
August	335,660	202,968	90,977	7	629,612
September	347,305	217,612	86,173	28	651,118
October	597,002	317,391	54,589	193	969,175
November 2006	1,638,094	718,211	108,894	557	2,465,756
December	2,251,956	994,572	116,801	680	3,364,009
January 2007	2,683,334	1,169,845	100,440	793	3,954,412
February	3,974,346	1,692,367	138,228	868	5,805,809
March	3,523,397	1,685,059	149,928	796	5,359,180
April	1,801,186	808,435	76,930	473	2,687,024
May	1,022,254	489,067	68,730	109	1,580,160
June	439,647	265,183	67,743	21	772,594
July	364,875	229,274	90,590	4	684,743
August	342,771	204,893	81,865	4	629,533
September	301,996	189,471	74,989	14	566,470
October	419,834	220,378	37,539	7	677,758
November 2007	1,095,024	502,424	57,486	182	1,655,116
December	2,457,976	1,053,708	115,338	321	3,627,343
January 2008	3,430,241	1,520,820	121,308	363	5,072,732
February	3,629,645	1,695,189	130,916	446	5,456,196
March	3,152,075	1,471,302	113,518	428	4,737,323
April	1,969,468	900,614	79,542	260	2,949,884
May	806,801	378,507	38,629	91	1,224,028
June	503,723	269,205	54,228	47	827,203
July	342,556	214,158	85,470	16	642,200
August	314,374	197,395	70,852	11	582,632
September	311,101	191,721	48,050	(10)	550,862
TOTAL	54,855,530	25,459,447	3,285,363	10,601	83,610,941

Table 5.3

VECTREN ENERGY DELIVERY OF OHIO, Inc.
Comparison of Locational Gas Price Differentials
(Dth)

Month	ANR Louisiana	Columbia Gas Appalachia	Panhandle TX/OK	Trunkline ELA	Texas Gas SL
November 2005	\$13.740	\$14.500	\$10.870	\$13.920	\$13.820
December	10.950	11.650	8.580	11.120	11.080
January 2006	11.150	11.770	8.760	11.330	11.610
February	8.120	8.710	6.760	8.250	8.110
March	6.940	7.440	6.200	6.990	6.990
April	7.060	7.610	5.810	7.120	7.030
May	7.120	7.510	5.770	7.140	7.080
June	5.880	6.150	5.070	5.860	5.840
July	5.770	6.050	5.170	5.790	5.800
August	6.910	7.230	6.140	6.960	6.870
September	6.590	7.050	5.900	6.750	6.330
October	4.060	4.330	3.540	4.140	4.010
November 2006	7.120	7.380	6.470	7.140	7.010
December	8.140	8.530	6.600	8.190	8.080
January 2007	5.780	6.010	5.520	5.810	5.700
February	6.850	7.060	6.620	6.950	6.890
March	7.460	7.750	6.650	7.530	7.450
April	7.460	7.920	6.060	7.510	7.400
May	7.540	7.820	6.580	7.450	7.420
June	7.560	8.030	6.820	7.570	7.550
July	6.790	7.370	5.960	6.870	6.830
August	6.040	6.340	5.260	6.050	6.000
September	5.390	5.570	4.730	5.400	5.320
October	6.350	6.610	5.320	6.390	6.310
November 2007	7.210	7.550	6.180	7.230	7.140
December	6.230	7.460	6.220	7.250	7.190
January 2008	7.160	7.420	6.210	7.180	7.140
February	7.990	8.290	7.260	8.000	7.980
March	9.010	9.380	8.010	8.910	8.990
April	9.550	10.070	8.230	9.570	9.530
May	11.280	11.800	9.400	11.230	11.240
June	11.900	12.360	9.650	11.900	11.770
July	13.090	13.540	11.070	13.080	13.070
August	9.160	9.630	7.570	9.150	9.160
September	8.320	8.590	6.340	8.310	8.210
Average	\$7.933	\$8.357	\$6.780	\$8.001	\$7.941
Fuel	1.63%	1.99%	5.43%	2.16%	2.81%
Variable Charge	\$0.014	\$0.015	\$0.042	\$0.015	\$0.024
Variable Citygate	\$8.078	\$8.541	\$7.211	\$8.193	\$8.195
Fixed Citygate	\$0.256	\$0.195	\$0.290	\$0.290	\$0.290
Total Citygate	\$8.334	\$8.736	\$7.501	\$8.482	\$8.485

Panhandle were VEDO's lowest marginal cost supply source. The marginal cost of gas sourced on ANR, Trunkline and Texas Gas were comparable. Deliveries by Columbia Gas for gas purchased in Appalachia were VEDO's highest cost gas supply.

Finally, shown in Table 5.3 are the fixed costs (pipeline reservation charges) associated with delivering gas from a particular index location on a 100 percent load factor basis, and the total costs (fixed plus variable) applicable for each location. Panhandle delivered supplies were VEDO's lowest cost source of supply, while gas supplies delivered by Columbia Gas ranked as VEDO's highest cost supply source during the audit period.

5.3 Procurement Strategy and Capacity Utilization

VEDO's Gas Supply Group prepares an annual gas supply plan. From the annual plan, a monthly plan for the following month is prepared which incorporates the most recent information. Each monthly plan shows the anticipated minimum day, average day and maximum day demands of GCR customers, and the maximum daily quantity of gas which can be injected into storage. VEDO generally purchases monthly baseload supplies equivalent to the anticipated minimum day demands of GCR customers plus maximum daily storage injection quantities. Baseload supplies include both advance purchases and first-of-the-month index purchases. VEDO attempted to maximize baseload deliveries by Panhandle during the audit period due to the price advantage associated with these supplies. Panhandle sourced supplies cannot meet the baseload requirements of all of the Company's operating areas and, therefore, VEDO used a portion of its firm transportation capacity on Texas Gas, ANR and the Trunkline/ Panhandle/Texas Eastern delivery path to fulfill its remaining baseload requirements. Operational and economic factors affect the extent to which pipeline or path is used to meet the Company's remaining baseload requirements.

To meet daily requirements in excess of baseload quantities, VEDO increased flowing supplies on Texas Gas, ANR and/or the Trunkline/Panhandle/Texas Eastern transportation path through daily swing purchases, and/or either reduced storage

injections or withdrawal gas from Columbia Gas or Panhandle storage. Storage inventory balances determined the extent to which flowing supplies or storage was used to accommodate requirements in excess of baseload quantities. That is, if VEDO's storage inventory balances were less than planned during the winter, flowing supplies were relied upon to a greater extent than if storage inventory balances were greater than planned balances. VEDO's storage inventory planning is discussed in Section 5 of this chapter. VEDO almost exclusively used its Columbia Gas SST capacity to deliver flowing supplies to Columbia Gas FSS storage for injection during the summer. Columbia Gas SST capacity was not use to deliver gas for current consumption because it was VEDO's highest cost source of supply.

VEDO utilized its non-storage firm interstate pipeline transportation capacity at approximately the following load factors during the audit period:

Table 5.4 VECTREN ENERGY DELIVERY OF OHIO, Inc. Pipeline Capacity Utilization		
Capacity Path	Load Factor	Contract Nos.
ANR Pipeline	57%	11879
Columbia Gas ⁽¹⁾	31%	Various
Panhandle	91%	20349
Texas Eastern	58%	910555
Texas Gas	74%	T026T12/T022329
Trunkline/Panhandle/ Texas Eastern	42%	194246 & 19808/20355 & 20848/870172
¹ Reflects SST summer usage as SST capacity is utilized during the winter for storage withdrawals.		

These capacity utilization factors reflect VEDO's strategy to maximize deliveries from Panhandle. Texas Eastern Contract No. 870173 is excluded from Table 5.4 because it is only utilized when Panhandle deliveries to the Glen Karn and Hollandsburg Stations exceed 60,000 Dth per day.

During the month, Gas Supply Group personnel modify the monthly supply plan to reflect actual daily deliveries and requirements, operational considerations and forecasted weather. Each day, a gas supply plan for the next day and the following four days is prepared. Forecasted daily requirements are provided to Gas Supply by Systems Gas Operations. In developing its daily gas supply plans, contract storage inventory levels and deliverability are the primary consideration. That is, VEDO will manage its reliance on contract storage in an effort to maintain inventory levels to avoid triggering reduced storage deliverability ratchets.

5.4 Peak Day Requirements and Supplies

Table 5.5 summarizes the capacity resources utilized by VEDO to meet the requirements of its GCR sales customers on the peak day occurring during each of the three winter seasons included in the audit period. Also reflected on Table 5.5 are the interstate pipelines used by transportation customers to meet their peak day requirements.

5.5 Commodity Purchases and Hedging Activities

As described further in Section 4.2.3(a) of the audit report, VEDO operated a price volatility mitigation program during the audit period. Under this program, Table 5.6 reveals that VEDO made purchases of 28.3 Bcf. Table 5.6 also summarizes VEDO's first-of-the-month index and daily swing purchases.

Table 5.5
VECTREN ENERGY DELIVERY OF OHIO, Inc.
Summary of Actual Peak Day Requirements and Supplies
(Mcf)

REQUIREMENTS	December 19, 2005	February 5, 2007	January 24, 2008
GCR Sales	232,999	301,664	271,610
Transportation	145,717	150,094	156,048
Total Requirements	378,716	451,758	427,658
SUPPLIES			
GCR Sales			
ANR	4,977	0	0
Columbia Gas FSS	64,692	115,455	139,640
Panhandle EFT	27,499	19,346	36,286
Panhandle FS	35,000	46,080	45,232
Texas Eastern FTS-1	4,188	4,199	4,208
Trunkline/Panhandle Texas Eastern	36,781	44,585	6,244
Texas Gas STF	39,862	39,999	40,000
Propane	20,000	32,000	0
Subtotal GCR Sales	232,999	301,664	271,610
Transportation			
ANR	52,974	42,017	35,228
Columbia Gas	45,133	36,848	49,736
Panhandle	6,458	9,731	4,026
Texas Gas	28,563	42,633	53,498
Texas Eastern	12,589	18,866	13,560
Subtotal Transportation	145,717	150,095	156,048
Total Supplies	378,716	451,758	427,658
Temperature	14° F	6° F	11° F

Table 5.6

VECTREN ENERGY DELIVERY OF OHIO, Inc.
Summary of Audit Period Purchases by Type
(Dth)

Month	Advance		First-of-the-Month		Daily Swing		Total Purchases	
	Quantity	Price	Quantity	Price	Quantity	Price	Quantity	Price
November 2005	1,230,000	\$8.754	279,612	\$13.218	646,540	\$10.220	2,156,152	\$9.772
December	1,639,125	10.203	480,367	11.012	1,487,664	12.751	3,607,156	11.362
January 2006	1,588,380	10.550	658,828	11.532	677,258	8.877	2,924,466	10.384
February	1,469,943	10.100	500,238	8.057	549,174	7.370	2,519,355	9.100
March	1,548,317	9.327	177,653	6.895	647,951	6.738	2,373,921	8.438
April	960,000	6.603	1,587,069	7.252	206,888	7.031	2,753,957	7.009
May	760,030	6.751	1,148,058	6.763	666,091	6.372	2,574,179	6.659
June	710,030	6.745	1,194,462	5.710	1,151	5.180	1,905,643	6.095
July	700,000	6.719	1,166,839	5.707	35,749	7.021	1,902,588	6.104
August	700,031	6.807	1,270,441	7.017	9,997	7.666	1,980,469	6.946
September	820,020	6.634	749,948	6.918	55,523	4.250	1,625,491	6.684
October	886,806	6.384	578,148	4.322	877,654	6.333	2,342,608	5.856
November 2006	1,030,009	7.125	510,485	6.842	780,210	7.290	2,320,704	7.118
December	1,209,564	7.812	863,994	8.056	399,319	7.740	2,472,877	7.885
January 2007	1,260,026	7.937	955,603	5.690	198,946	7.140	2,414,575	6.982
February	1,047,159	7.519	958,398	6.860	1,290,507	8.352	3,296,064	7.654
March	1,010,040	7.406	1,092,554	7.320	448,054	7.303	2,550,648	7.351
April	599,970	6.843	1,614,263	7.111	944,213	7.749	3,158,446	7.251
May	574,027	6.976	1,742,194	7.328	736,883	8.099	3,053,104	7.448
June	490,020	7.131	1,561,058	7.436	581,444	7.935	2,632,522	7.489
July	509,953	7.160	1,556,203	6.688	404,321	6.607	2,470,477	6.772
August	519,994	7.022	1,330,954	5.921	470,785	6.405	2,321,733	6.266
September	540,030	6.384	1,159,165	5.323	525,888	6.201	2,225,083	5.788
October	500,030	6.314	798,292	6.188	53,974	6.405	1,352,296	6.243
November 2007	1,150,049	6.675	423,600	7.154	766,757	7.046	2,340,406	6.883
December	1,243,083	7.222	481,926	7.215	1,038,493	7.055	2,763,502	7.158
January 2008	1,324,089	7.086	243,536	7.173	864,551	8.010	2,432,176	7.423
February	1,112,730	7.355	238,670	7.991	966,132	8.651	2,317,532	7.961
March	1,189,500	7.500	92,287	8.956	1,400,465	9.310	2,682,252	8.495
April	0	0.000	2,128,080	8.969	1,038,800	10.504	3,166,880	9.472
May	0	0.000	1,868,397	10.238	731,752	11.678	2,600,149	10.643
June	0	0.000	1,834,518	10.605	786,940	13.087	2,621,458	11.350
July	0	0.000	1,946,707	11.975	812,490	11.851	2,759,197	11.938
August	0	0.000	2,195,901	8.471	316,820	8.651	2,512,721	8.494
September	0	0.000	1,130,635	7.393	1,089,250	6.430	2,219,885	6.920
TOTAL	28,322,955		36,519,083		22,508,634		87,350,672	

5.6 Storage Operations

VEDO purchased contract storage service from Columbia Gas and Panhandle during the audit period. In total, VEDO reserved 246,080 Dth of daily storage deliverability and 11,851,360 Dth of seasonal storage capacity (exclusive of propane peak shaving storage). The Company's planning guidelines with respect to storage inventory were as follows. By October 31 of each year, VEDO planned to have Panhandle storage 100 percent full and Columbia Gas storage approximately 96 to 98 percent full. VEDO leaves a portion of its Columbia Gas storage unfilled to accommodate unseasonably warm conditions which may be experienced in November. VEDO planned to maintain its combined contract storage at 90 percent of capacity by December 1, at 75 percent by January 1, 50 percent by February 1 and 30 percent by March 1.

The contract storage services VEDO purchased from Columbia Gas and Panhandle provided for full daily deliverability when inventories exceeded 30 percent. VEDO managed storage inventories so full deliverability was maintained through February 15th. Columbia Gas and Panhandle required VEDO to deplete storage inventory to certain minimum levels by April 1 of each year. The storage level on Columbia Gas was required to be at or below 25 percent of VEDO's seasonal entitlement. Panhandle storage inventory was required to be reduced to 20 percent of VEDO's seasonal contract quantity by April 1. Failure to achieve the minimum storage inventory requirements may have resulted in the assessment of penalty charges. Columbia Gas storage accommodated variances between VEDO's citygate nominations and actual citygate deliveries. Panhandle storage was generally base loaded or taken at the maximum daily contract demand from the middle of December through the conclusion of the heating season.

Table 5.7 shows VEDO's actual monthly utilization of storage service during the audit period. VEDO filled Columbia Gas storage to 90-98 percent of maximum capacity prior to beginning winter season withdrawals during the audit period. Panhandle

Table 5.7

VECTREN ENERGY DELIVERY OF OHIO, Inc.
Summary of Audit Period Storage Activity
(Dth)

Month	Columbia Gas FSS			Panhandle FS			TOTAL		
	Injection	Withdrawal	Balance	Injection	Withdrawal	Balance	Injection	Withdrawal	Balance
November	39,879	904,028	7,249,185	0	236,395	4,203,360	39,879	1,140,423	11,452,545
December	18,794	1,552,884	6,385,036	0	664,284	3,966,965	18,794	2,217,168	10,362,001
January 2006	63,216	739,997	4,850,946	0	554,921	3,302,681	63,216	1,294,918	8,153,627
February	36,677	1,251,302	4,174,165	0	810,100	2,747,760	36,677	2,061,402	6,921,925
March	73,425	873,644	2,959,540	0	1,937,880	38,677	73,425	1,532,861	4,897,200
Seasonal Total	231,991	5,321,855	2,159,321	0	659,217	1,278,443	231,991	8,246,772	3,437,764
April	875,318	79,174	2,955,465	508,007	0	1,786,450	1,383,325	79,174	4,741,915
May	913,538	7,391	3,861,612	485,131	0	2,271,581	1,398,669	7,391	6,133,193
June	548,266	0	4,409,878	494,142	0	2,765,723	1,042,408	0	7,175,601
July	629,524	0	5,039,402	547,959	0	3,313,882	1,177,483	0	8,353,084
August	934,923	0	5,974,325	357,708	0	3,671,390	1,292,631	0	9,645,715
September	561,029	0	6,535,354	294,030	0	3,965,420	855,059	0	10,500,774
October	262,690	227,937	6,570,107	237,870	0	4,203,290	500,560	227,937	10,773,397
Seasonal Total	4,725,288	314,502	2,924,847	2,924,847	0	7,650,135	314,502		
November 2006	345,381	891,784	6,023,704	0	152,280	4,051,010	345,381	1,044,064	10,074,714
December	41,946	1,419,482	4,646,167	0	325,208	3,725,802	41,946	1,744,690	8,371,969
January 2007	17,627	1,980,154	2,683,640	0	874,029	2,851,773	17,627	2,854,183	5,535,413
February	13,984	2,065,204	632,420	0	1,293,728	1,558,045	13,984	3,358,932	2,190,465
March	151,968	532,782	251,606	0	618,821	939,224	151,968	1,151,603	1,190,830
Seasonal Total	570,905	6,889,406	0	3,264,066		570,905	10,153,472		
April	1,010,531	616,586	645,551	354,637	0	1,293,861	1,365,168	616,586	1,939,412
May	1,604,099	0	2,249,650	638,290	0	1,932,151	2,242,389	0	4,181,801
June	1,387,813	0	3,637,463	617,700	0	2,549,851	2,005,513	0	6,187,314
July	1,289,000	0	4,926,463	557,075	0	3,106,926	1,846,075	0	8,033,389
August	1,225,831	0	6,152,294	486,328	0	3,593,254	1,712,159	0	9,745,548
September	1,113,987	0	7,266,281	225,305	0	3,818,559	1,339,292	0	11,084,840
October	241,586	384,327	7,123,540	250,695	0	4,069,254	492,281	384,327	11,192,794
Seasonal Total	7,872,847	1,000,913	3,130,030	3,130,030	0	11,002,877	1,000,913		
November	180,900	350,991	6,953,449	0	40,752	4,028,502	180,900	391,743	10,981,951
December	44,046	1,180,613	5,816,882	0	886,330	3,142,172	44,046	2,066,943	8,959,054
January 2008	24,855	2,394,230	3,447,507	0	1,128,576	2,013,596	24,855	3,522,806	5,461,103
February	15,923	2,088,992	1,374,438	0	1,026,438	987,158	15,923	3,115,430	2,361,596
March	10,359	1,351,690	33,107	0	694,031	293,127	10,359	2,045,721	326,234
Seasonal Total	276,083	7,366,516	0	3,776,127		276,083	11,142,643		
April	1,199,942	78,333	1,154,716	290,000	0	583,127	1,489,942	78,333	1,737,843
May	1,018,573	0	2,173,289	651,000	0	1,234,127	1,669,573	0	3,407,416
June	1,329,661	0	3,502,950	630,000	0	1,864,127	1,959,661	0	5,367,077
July	1,405,140	0	4,908,090	651,000	0	2,515,127	2,056,140	0	7,423,217
August	1,223,585	0	6,131,675	651,000	0	3,166,127	1,874,585	0	9,297,802
September	397,387	0	6,529,062	322,142	0	3,488,269	719,529	0	10,017,331
Seasonal Total	6,574,288	78,333	3,195,142	3,195,142	0	9,769,430	78,333		

storage was filled to 97-100 percent of capacity each year. Columbia Gas storage was depleted to 30 percent of VEDO's seasonal capacity quantity by the end of the 2005-2006 winter heating season, to 12 percent of capacity during the following year and was completely depleted during the 2007-2008 winter heating season. Panhandle storage was depleted to 30 percent, 22 percent and 7 percent, respectively, during the same periods. The 2005-2006 end of winter heating season inventory balances under VEDO's Columbia Gas and Panhandle storage arrangements exceeded those permitted under each pipeline's tariff and, therefore, were subject to penalty. Both pipelines elected to waive these penalties in advance of the dates listed in each pipeline's tariff.

VEDO utilized its on-system propane facilities to serve GCR customers on two occasions. In December 2005, VEDO utilized 94,932 Mcf at a cost of \$584,609, and in February 2007, utilized 96,685 Mcf at a cost of \$617,017 to serve GCR customers. VEDO also operated its propane facilities for testing purposes on several occasions during the audit period. A total of 6,847 Mcf at a cost \$60,685 was used for this purpose.

The Stipulation and Recommendation approved by the Commission in VEDO's prior management audit proceeding required VEDO to perform a statistical analysis of its late winter peaking criterion to evaluate the appropriate date for retention of storage ratchets. This was to address the recommendation of the auditor that VEDO move its late winter peaking date from the current February 15th to January 21st. It was anticipated that by moving the storage ratchet retention date to January 21st, additional gas would be withdrawn from storage during November, December and January, displacing the purchase of higher cost gas during these months. A company-specific requirement of this audit was to review VEDO's statistical analysis. As part of its analysis, VEDO examined actual gas prices during the 2006-2007 and 2007-2008 winter seasons. This examination revealed that gas prices were not always lower toward the end of the winter season than at the beginning of the winter season.

VEDO's analysis also investigated the effect moving the storage ratchet retention date to January 21st would have on service reliability. VEDO's analysis revealed that if the date was moved to January 21st and a severe winter season was experienced, VEDO would have insufficient gas in storage inventory and firm pipeline transportation capacity to meet its GCR customers' requirements. Based on VEDO's findings with respect to winter season gas prices and the effect on service reliability, we agree with the conclusion of VEDO's analysis that the storage ratchet retention date not be moved from February 15th to January 21st.

5.7 Capacity Release and Off-System Sales Activity

Under the VEDO's audit period asset management arrangements, VEDO released all of its interstate pipeline capacity to Sequent. In return for VEDO's capacity, Sequent paid VEDO a management fee. As permitted under the AMA, small quantities of capacity were assigned to a supplier participating in VEDO's customer choice program during the period August 2007 through March 2008. These assignments are discussed in Chapter 4. VEDO also assigned small quantities of capacity to suppliers in September 2008 in conjunction with its exiting of the merchant function. These assignments are reflected in Appendix C of our report. Other than the release of capacity to Sequent and these limited assignments of capacity to suppliers, VEDO itself did not engage in capacity release activity during the audit period.

Off-system sales generally involve the sale of gas at off-system locations transported to the point of sale utilizing temporary excess interstate pipeline capacity. As with capacity release activity, because of the AMA with Sequent, VEDO did not engage in off-system sales activity during the audit period.

5.8 Lost and Unaccounted-For Gas and Company Use Gas

One of the objectives of the management and performance audit of VEDO's gas supply policies and practices is to identify and evaluate the Company's programs to minimize lost and unaccounted-for gas ("LUFG"). LUFG and gas used in company

operations, or company use, represent the difference between the volume of gas purchased from suppliers and the volume of gas sold to customers. LUFG and company use are important in considering the ability of Ohio gas distribution companies to provide reliable gas supplies at a minimum cost because of the treatment they receive under the GCR mechanism. The gas cost recovery rate is determined by dividing the cost of all volumes purchased to serve GCR customers by the volume of gas sold to GCR customers. As a result, the costs of lost and unaccounted-for gas and company use are passed through to customers through the GCR mechanism.

Lost and unaccounted-for gas is the difference between the measured volume of total gas supply or gas purchased and the measured volume of gas disposition. Gas disposition includes both gas billed to customers and company use. There are a variety of reasons why some gas is not accounted for. Some LUFG is due to problems in the measurement of gas supply and disposition. The volume of a given quantity (i.e., weight or heating value) of natural gas depends upon temperature and pressure conditions, and these may vary. Another measurement factor which can affect LUFG is cycle billing, which causes a mismatch between the timing of gas supply measurements and recorded gas sales volumes. A final measurement factor is meter inaccuracies. In addition to these measurement problems, some gas is lost through leakage in pipelines and other facilities, and through meter tampering or other kinds of theft.

Table 5.8 summarizes LUFG as a percent of total throughput for the past 5 years on a 12-month ended August basis. As shown on Table 5.7, VEDO experienced a LUFG percentage of 1.35 percent for the 12 months ended August 31, 2007 and 1.37 percent for the 12 months ended August 31, 2008.

Table 5.8 VECTREN ENERGY DELIVERY OF OHIO, INC. Lost and Unaccounted-for Gas	
Year Ended August	Percentage
2004	1.73
2005	1.42
2006	1.18
2007	1.35
2008	1.37

Company use is the gas which VEDO itself utilizes in operating its system. The uses of this gas include heating company buildings. VEDO also considers franchise use gas as company use. Franchise use gas is free gas provided to Tipp City, Ohio to heat its Government Center building under an arrangement entered into with a predecessor of VEDO more than 100 years ago. Franchise use gas generally totals less than 1,000 Dth per year. During calendar 2006, company use totaled 6,819 Dth and for calendar 2007, company use totaled 8,632 Dth. These amounts represent less than .02 percent of total gas delivered to the system during the corresponding time periods. As shown below, the company use volumes for the audit period have been consistent with levels experienced over the preceding several years.

Table 5.9 VECTREN ENERGY DELIVERY OF OHIO, INC. Company Use* (Dth)	
Year	Volume
2003	8,719
2004	7,622
2005	9,202
2006	6,128
2007	7,867
* Franchise gas volumes are not available for the entire period and are excluded.	

VEDO's transportation customers are charged for LUFG and company use through a fuel retention charge which is adjusted annually to reflect the Company's actual 12 months' ended August LUFG experience, calculated on a 4-year rolling average basis, and the Company's most recent calendar year company use. The fuel retention charge applicable at the conclusion of the audit period was 1.6 percent.

5.9 Conclusions and Recommendations

5.9.1 Audit Period Procurement Strategy

VEDO's audit period procurement strategy to maximize deliveries from its lowest cost source of supply was consistent with least cost gas procurement. VEDO's audit period gas supply commodity purchases were consistent with this strategy.

5.9.2 Late Winter Peaking Criterion

The Stipulation and Recommendation approved by the Commission in VEDO's prior management audit proceeding required VEDO to perform a statistical analysis of its late winter peaking criterion to evaluate the appropriate date for retention of storage ratchets. This was to address the recommendation of the auditor that VEDO move its late winter peaking date from the current February 15th to January 21st. It was anticipated that by moving the storage ratchet retention date to January 21st, additional gas would be withdrawn from storage during November, December and January, displacing the purchase of higher cost gas during these months. A company-specific requirement of this audit was to review VEDO's statistical analysis. As part of its analysis, VEDO examined actual gas prices during the 2006-2007 and 2007-2008 winter seasons. This examination revealed that gas prices were not always lower toward the end of the winter season than at the beginning of the winter season.

VEDO's analysis also investigated the effect moving the storage ratchet retention date to January 21st would have on service reliability. VEDO's analysis revealed that if the date was moved to January 21st and a severe winter season was experienced, VEDO would have insufficient gas in storage inventory and firm pipeline transportation

capacity to meet its GCR customer's requirements. Based on VEDO's findings with respect to winter season gas prices and the effect of moving the storage ratchet retention date on service reliability, we agree with the conclusion of VEDO's analysis that the storage ratchet retention date not be moved to January 21st.

6. TRANSPORTATION SERVICE

VEDO provides transportation, or delivery service, for customers who acquire their own natural gas supplies separately from the purchase of the Company's system supply. In 2007, VEDO delivered approximately 24,000,000 Mcf for its residential, commercial and industrial transportation customers. This represents nearly 50 percent of the Company's total combined annual sales and transportation volumes of 52,000,000 Mcf. VEDO provides transportation service to small volume ("choice") customers under its Residential and General Transportation Service rate schedules. Transportation service for choice customers was initiated in 2003. Traditional transportation service to large volume customers is available under the Large General Transportation Service rate schedule. VEDO discounts its base tariff rates for certain large competitively situated transportation customers. Separate pooling services are available to suppliers serving choice customers and to suppliers serving traditional transportation customers. Table 6.1 summarizes VEDO's transportation activity and the number of customers by service classification for the audit period. Table 6.2 shows monthly transportation customer deliveries by interstate pipeline. As shown on Table 6.2, choice suppliers generally utilized Texas Eastern, Columbia Gas and ANR to deliver gas supplies to VEDO, while suppliers to traditional transportation customers generally utilized Columbia Gas and Texas Gas. Although it is VEDO's least cost supply source, suppliers do not source significant quantities of gas on Panhandle due to the lack of available capacity.

The first section of this chapter describes VEDO's transportation program for choice customers. The next section discusses traditional transportation service. The final section of this chapter presents our conclusions and recommendations.

Table 6.1

VECTREN ENERGY DELIVERY OF OHIO, Inc.
Summary of Audit Period Transportation Activity
(Mcf)

Month	Residential Choice		Commercial Choice		Total Choice		Large Transportation		Total Transportation	
	Volumes	Customers	Volumes	Customers	Volumes	Customers	Volumes	Customers	Volumes	Customers
November 2005	365,622	64,681	105,082	3,877	470,704	68,558	1,220,584	645	2,161,992	137,761
December	851,940	67,048	230,901	3,858	1,082,841	70,906	1,553,568	673	3,719,250	142,485
January 2006	1,068,937	66,392	260,042	3,791	1,338,979	70,183	2,094,268	673	4,772,226	141,039
February	842,661	65,572	217,260	3,738	1,059,921	69,310	1,773,647	670	3,893,489	139,290
March	881,214	65,214	225,628	3,700	1,106,842	68,914	1,832,077	670	4,045,761	138,498
April	593,318	64,626	148,213	3,664	741,531	68,290	1,752,174	665	3,235,236	137,245
May	247,332	64,580	69,069	3,709	316,401	68,289	1,140,719	665	1,773,521	137,243
June	176,712	64,913	46,249	3,711	222,961	68,624	1,096,311	657	1,542,233	137,905
July	101,765	65,118	39,047	3,688	140,812	68,806	948,317	656	1,229,941	138,268
August	94,256	65,327	34,268	3,722	128,524	69,049	799,144	654	1,056,192	138,752
September	101,017	67,109	38,303	3,945	139,320	71,054	938,763	653	1,218,403	142,761
October	193,661	67,715	59,133	4,071	252,794	71,786	971,704	653	1,477,292	144,225
Subtotal	5,508,435	65,691	1,493,195	3,790	7,001,630	69,481	16,122,276	661	30,125,536	139,623
November 2006	535,577	67,591	153,089	4,099	688,666	71,690	1,345,826	641	2,723,158	144,021
December	718,868	68,126	196,640	4,152	915,508	72,278	1,502,039	640	3,333,055	145,196
January 2007	858,458	68,834	232,762	4,156	1,091,220	72,990	1,667,071	655	3,849,511	146,635
February	1,261,782	69,289	330,900	4,196	1,592,682	73,485	1,978,783	652	5,164,147	147,622
March	1,128,760	69,023	324,467	4,185	1,453,227	73,208	2,199,580	655	5,106,034	147,071
April	580,736	69,500	182,738	4,249	763,472	73,749	1,559,013	652	3,045,957	148,150
May	335,976	69,264	99,891	4,239	435,867	73,503	1,394,040	651	2,285,774	147,657
June	136,460	68,974	48,675	4,309	185,135	73,183	1,013,546	649	1,383,816	147,015
July	110,315	68,681	44,166	4,322	154,481	73,003	897,388	652	1,206,350	146,658
August	103,254	68,768	41,871	4,314	145,125	73,082	872,500	650	1,162,750	146,814
September	92,490	69,138	41,334	4,329	133,824	73,467	930,089	650	1,197,737	147,584
October	134,289	70,179	54,322	4,325	188,611	74,504	908,686	652	1,283,908	149,660
Subtotal	5,996,965	68,939	1,730,853	4,240	7,727,818	73,179	16,266,561	650	31,722,197	147,007
November 2007	372,645	71,862	110,196	4,343	482,841	76,205	1,062,272	644	2,027,954	153,054
December	850,338	72,896	228,463	4,393	1,078,801	77,289	1,468,300	646	3,621,902	155,224
January 2008	1,184,757	73,483	329,363	4,391	1,514,120	77,874	1,779,909	650	4,808,149	156,398
February	1,249,294	73,383	353,901	4,413	1,603,195	77,796	2,068,899	649	5,275,289	156,241
March	1,086,279	73,199	309,903	4,374	1,396,182	77,573	2,107,989	651	4,898,353	155,797
April	688,492	72,968	189,460	4,361	877,952	77,329	1,869,254	653	3,625,158	155,311
May	283,814	72,646	82,906	4,375	366,720	77,021	1,627,269	653	2,380,709	154,695
June	175,008	72,457	55,909	4,598	230,917	77,065	1,486,281	657	1,948,115	154,767
July	111,395	72,188	43,257	5,079	154,652	77,267	1,306,689	652	1,615,993	155,186
August	102,549	71,967	38,142	5,622	140,691	77,579	1,315,093	654	1,596,475	155,812
September	101,788	72,129	48,634	5,808	150,422	77,937	1,383,254	658	1,684,098	156,532
Subtotal	6,206,359	72,652	1,787,134	4,705	7,993,493	77,357	17,475,209	652	33,462,195	155,385
TOTAL/AVERAGE	17,711,759	69,094	5,011,182	4,245	22,722,941	73,339	49,864,046	654	95,309,928	147,332

Table 6.2

VECTREN ENERGY DELIVERY OF OHIO, Inc.
Summary of Audit Period Transportation Customer Deliveries by Pipeline
(Dth)

Month	ANR PIPELINE		Columbia Gas		Panhandle		Texas Eastern		Texas Gas		TOTAL	
	Choice	Traditional	Choice	Traditional	Choice	Traditional	Choice	Traditional	Choice	Traditional	Choice	Traditional
November 2005	222,422	534,487	201,195	470,140	47,713	23,584	182,767	34,419	152,234	442,014	806,331	1,504,644
December	333,457	751,329	401,680	676,510	86,313	65,154	405,755	57,758	198,358	590,075	1,425,563	2,140,826
January 2006	198,629	740,255	293,649	436,408	79,561	57,595	355,397	114,632	154,000	510,927	1,081,236	1,859,817
February	28,999	262,757	25,070	363,103	1,378	72,982	5,258	306,984	7,319	159,686	68,024	1,165,492
March	190,438	775,417	285,227	557,473	75,974	26,380	244,826	128,209	152,175	368,952	948,640	1,856,431
April	84,562	462,307	172,139	439,049	8,390	18,436	0	0	102,177	241,150	367,268	1,160,942
May	75,140	426,525	143,991	481,111	0	34,273	0	0	71,898	163,644	291,029	1,105,553
June	26,340	332,819	41,730	392,115	3,420	21,394	0	6,754	31,740	185,984	103,230	939,066
July	43,815	260,901	40,902	408,658	4,495	20,918	0	0	40,641	124,272	129,853	814,749
August	46,190	338,286	61,597	438,043	0	14,763	0	5,726	150,930	150,930	154,876	947,748
September	67,451	337,588	96,156	496,176	13,498	16,411	0	8,080	58,285	116,925	235,390	975,180
October	172,103	270,764	225,476	605,293	19,391	28,513	0	106,204	178,666	332,129	595,636	1,342,903
Subtotal	1,489,546	5,493,435	1,988,812	5,764,079	340,133	400,383	1,194,003	768,766	1,194,582	3,386,688	6,207,076	15,813,351
November 2006	15,097	231,936	194,277	693,983	23,700	116,672	358,352	170,240	170,107	342,737	761,533	1,555,568
December	275,248	467,876	280,458	660,237	0	289,011	166,263	27,739	251,245	356,462	973,214	1,801,325
January 2007	389,865	534,935	350,244	515,008	6,895	267,193	290,647	0	313,472	637,395	1,351,123	1,954,531
February	354,086	427,361	430,436	722,131	2,276	191,462	464,774	0	321,800	760,953	1,573,372	2,226,765
March	256,606	451,085	211,878	375,936	0	238,483	154,241	0	202,388	487,986	925,113	1,553,490
April	212,052	308,355	159,141	446,618	0	139,419	184,821	5,160	123,346	569,350	679,360	1,468,902
May	79,818	259,132	60,291	328,413	0	33,459	68,691	9,899	26,072	403,854	234,872	1,034,757
June	87,420	228,702	41,550	330,624	0	30,754	67,380	18,921	4,950	308,250	201,300	915,251
July	107,229	231,606	51,456	345,078	0	26,628	85,742	18,305	4,292	273,335	248,719	894,952
August	33,420	256,027	40,606	434,730	30,470	31,359	76,810	74,928	360	165,931	181,666	962,975
September	56,896	238,293	50,475	349,859	12,000	29,506	76,933	6,340	901	293,997	197,205	917,995
October	119,410	281,447	102,614	359,343	8,019	36,619	147,221	0	1,745	376,976	379,009	1,054,385
Subtotal	1,987,147	3,914,755	1,973,426	5,561,960	83,360	1,430,565	2,141,875	456,390	1,420,678	4,977,226	7,806,486	16,340,898
November 2007	258,463	360,556	209,981	577,227	27,125	49,845	393,974	30,000	40,640	463,499	930,183	1,480,927
December	380,398	374,339	288,875	736,316	55,093	25,422	445,386	77,500	151,161	625,018	1,320,913	1,838,595
January 2008	309,619	348,969	347,112	842,226	62,654	49,869	377,765	77,500	407,915	787,114	1,505,065	2,105,678
February	329,311	372,708	297,139	818,628	68,236	55,206	321,471	72,500	376,691	806,732	1,404,848	2,125,774
March	291,977	383,373	267,838	670,364	62,528	67,749	428,252	77,500	68,114	733,101	1,118,709	1,932,067
April	198,380	366,972	134,957	588,660	0	59,900	209,951	0	20,000	642,689	563,288	1,658,221
May	65,219	220,926	84,676	542,176	24,584	49,363	96,657	0	96,149	693,287	367,285	1,505,752
June	76,788	251,172	45,797	498,191	40,479	47,900	38,297	0	5,022	547,742	206,383	1,345,005
July	83,669	250,737	52,158	481,047	36,518	64,187	67,471	29,488	0	496,322	239,816	1,321,781
August	67,995	279,290	39,651	531,546	34,224	75,591	39,551	38,901	0	501,531	181,421	1,426,859
September	69,191	313,785	54,627	487,838	42,375	70,944	33,021	0	4,732	526,847	203,946	1,399,214
Subtotal	2,131,010	3,522,827	1,834,811	6,774,219	453,816	615,776	2,451,796	403,389	1,170,424	6,823,682	8,041,857	18,139,893
TOTAL	5,607,703	12,931,017	5,797,049	18,100,258	877,309	2,446,724	5,787,674	1,628,545	3,785,684	15,187,596	21,855,418	50,294,140

6.1 Choice Transportation Program

6.1.1 Background and Participation

Like VEDO's traditional transportation service offering, choice customers purchase their gas supplies from unregulated suppliers in the competitive markets and rely on transportation service provided by VEDO to deliver those supplies to their premises. Residential choice customers are served under Rate 315. Non-Residential choice customers with annual usage of less than 15,000 Mcf are served under Rate 325. Non-Residential customers with annual usage in excess of 15,000 Mcf are served under Rate 345 which is discussed in Section 6.2 of this report. Suppliers serving choice customers utilize pooling service provided under Rate 385. Pooling service allows a supplier to deliver to the Company, on an aggregate basis, the natural gas supplies needed to satisfy the requirements of all of its customers in a designated pool. That is, the supplier need only arrange for delivery to VEDO the total quantity of gas required to serve the pool, and not designate the amount specifically delivered for each customer.

As shown on Table 6.1, the number of residential and commercial customers participating in VEDO's customer choice program increased modestly during the audit period. As of the conclusion of the audit period, approximately 30 percent of eligible residential customers, and 25 percent of eligible commercial customers were participating in the choice program. There were four suppliers participating in the customer choice program at the commencement of the audit period, and three suppliers participating at the conclusion of the audit period. Vectren Retail, LLC, d/b/a Vectren Source, is a participant in VEDO's customer choice program, and holds the largest market share of all participating suppliers.

6.1.2 Service Terms and Conditions

Each month suppliers are required to secure sufficient firm interstate pipeline capacity with primary delivery points to VEDO's citygates (comparable firm capacity

requirement) and firm gas supplies to meet 100 percent of that month's anticipated peak day demand of its customers. VEDO periodically verifies supplier compliance with its comparable firm capacity requirement. If not necessary to meet the needs of its GCR customers, VEDO may make a portion of its interstate pipeline capacity available for assignment to suppliers.

Each month during the winter period, a portion of the Company's vaporized propane capacity is reserved for choice suppliers based on the product of the monthly design day demand of a supplier's customers and the ratio of the Company's total monthly design day needs forecasted to be met by vaporized propane. The portion assigned to a supplier is applied as a reduction to the peak design day demand a supplier must meet to satisfy its comparable capacity requirement. When the forecasted demand of a supplier's customers reaches the supplier's comparable capacity requirement, VEDO provides vaporized propane or alternate peak supplies to meet demands in excess of the comparable capacity requirement. Costs associated with providing propane or an alternate peaking supply are billed to the supplier. During the audit period, approximately 10 percent of a choice supplier's comparable firm capacity requirements were available to be met with propane or an alternate peaking supply. It was unnecessary for choice suppliers to rely on VEDO's propane facilities or an alternate peaking supply to meet the requirements of their customers during the audit period.

By 10:00 A.M. Central Clock Time ("CCT"), VEDO posts on its electronic bulletin board ("EBB"), the quantity of gas a supplier is to deliver for the gas day beginning at 9:00 A.M. CCT the following day. This quantity, referred to as the Directed Delivery Quantity ("DDQ"), reflects the expected demand of the supplier's customers based on forecasted weather, adjusted for prior imbalances associated with volume reconciliations which are discussed later in this chapter, operating constraints and Company lost and unaccounted-for gas. At the time the DDQ is posted, the Company also indicates the minimum, maximum or exact volume to be delivered by the supplier on each interstate pipeline and/or to each of the Company's pipeline interconnects.

Unless alternative arrangements have been made with the Company, if a supplier delivers less than the DDQ on a day an Operational Flow Order ("OFO") is not in effect, the Company bills the supplier for the deficient volumes (cash-out) at the higher of either: (1) the monthly index price reported in *Inside FERC's Gas Market Report* for Columbia Gas, Appalachia; or (2) the highest incremental cost of gas for that calendar month that VEDO actually paid for gas supplies, and in both cases, pipeline transportation and all other applicable charges are included. Suppliers are also assessed a DDQ Non-Compliance Charge of \$1.00 per Dth. The DDQ Non-Compliance Charge is assessed against: (1) the daily difference between the supplier's DDQ and total deliveries; (2) the daily difference between the minimum allowable volume identified by the Company that may be delivered by a specific interstate pipeline or to a specific citygate and the supplier's actual deliveries by that interstate pipeline or to that citygate less than the minimum allowable volume for that day; and (3) the difference between the maximum allowable volume identified by the Company that may be delivered by a specific interstate pipeline to a specific citygate and the actual deliveries by that interstate pipeline to that citygate greater than the maximum allowable volume for that day.

If a supplier delivers gas in excess of its DDQ, and no alternative arrangements have been made, the Company acquires the excess quantity from the supplier at the lowest price of gas for that calendar month that VEDO actually paid for gas supplies. The Company may also refuse to accept excess deliveries or confiscate the excess gas.

VEDO may issue an OFO under extreme conditions where such action is necessary to: (1) protect the reliability of Company's gas system; (2) assure deliveries of gas supplies to all of the Company's firm customers, and/or (3) adhere to the various interstate pipeline companies' balancing requirements. Days on which OFOs are in effect are also referred to as Critical Days. VEDO generally issues OFOs during periods of high demand typically caused by cold temperatures (cold weather OFO) to ensure suppliers (both choice and large traditional) deliver supplies sufficient to meet their customers' demands. VEDO also issues OFOs during periods of low demand

during the winter period typically caused by warm-than-normal temperatures (warm weather OFO). Warm weather OFOs are typically issued to reduce excess deliveries in an oversupply situation.

Failure to deliver sufficient supplies during a cold weather OFO period results in the following charges to a supplier which are assessed against the difference between the supplier's DDQ and actual deliveries: (1) the greater of the highest incremental gas cost incurred by Company on the date of non-compliance or the Daily Under-Delivery Charge,¹ applicable to the day the under-delivery occurred, (2) the payment of all other charges incurred by Company and attributable to the supplier's non-compliance, including pipeline penalty charges on the OFO delivery deficiency; (3) applicable taxes; and (4) an OFO Non-Compliance Charge of \$30.00 per Dth.

Failure to reduce deliveries during a warm weather OFO period may result in Company: (1) refusing to receive the excess volumes from the interstate pipeline(s); and/or (2) confiscating the excess volumes from the supplier for its general supply requirements without compensating the supplier. A supplier is required to pay any penalty or other charges the Company incurs from interstate pipelines for excess deliveries. In addition, the supplier is required to pay the OFO Non-Compliance Charge of \$30.00 per Dth which is applied to the difference between the DDQ and actual deliveries.

Warm weather OFOs were in effect on 25 days during the audit period. All such OFOs were issued in the months of November 2005, March 2006 and March 2007. Cold weather OFO's were in effect on 20 days during the audit period. All such OFOs were issued in the months of February 2007 and January 2008. VEDO reported that customer choice suppliers had no violations during warm weather OFO days and five violations during cold weather OFO days.

¹ The Daily Under-Delivery Charge is equal to the daily midpoint price reported in *Gas Daily* for Columbia Gas, Appalachia, plus the maximum interruptible transportation rate on Columbia Gas, including fuel and all surcharges.

6.1.3 Imbalances and Volume Reconciliation

The column entitled "Cash-Out" on Table 6.3 identifies the extent to which choice supplier deliveries differed from required DDQ quantities during the audit period. As shown there, such differences were minimal.

VEDO determines on a 12-month ended July basis for each supplier the difference between the volume of gas actually delivered by a supplier and the usage of the supplier's customers. At the time a supplier elects to participate in the customer choice program, the supplier elects to eliminate annual imbalances through either the cashout or storage inventory transfer procedures identified below:

(1) Payment from Company for over-delivery imbalance volumes or billed by Company for under-delivery imbalance volumes at the weighted average (calculated based on the supplier's monthly deliveries to its customers) of the first-of-the-month index prices published for "Columbia Gas Transmission Corp., Appalachia" as reported by *Inside FERC's Gas Market Report* in the table "Prices of Spot Gas Deliveries to Pipelines" for the applicable months during the period, converted to Ccf using the system average Btu factor for the applicable period and adjusted for the applicable taxes; or

(2) Exchange of gas with Company via a storage inventory transfer or delivery over a thirty (30) day period.

Each February, May and November, VEDO also compares actual delivered supplies and usage of the suppliers' customers for the prior quarter. If the volume difference is significant, a daily adjustment may be made to future DDQs for that supplier to resolve the imbalances prior to the annual reconciliation period. Monthly differences between the volume of gas actually delivered by a supplier and the usage of the supplier's customers for the audit period are shown under the "Imbalance" column of Table 6.3. As shown there, at times, because of cycle billing, monthly imbalances were significant. Under cycle billing, when entering the winter season, usage data is typically understated, and, therefore, deliveries exceed usage. This relationship is reversed when exiting the winter season, and these imbalance patterns are consistent with VEDO audit period experience. VEDO's annual reconciliation procedures utilized a 12-month ended July period. The impact of cycle billing is minimized during the summer period, and a 12-month ended July period provides a reasonable indication of VEDO's

Table 6.3

VECTREN ENERGY DELIVERY OF OHIO, INC.
Summary of Audit Period Choice Imbalances

Month	Deliveries Dth	Cash-Out Dth	Net Deliveries Dth	Net Deliveries Ccf	Usage Ccf	Imbalance Ccf
November 2005	806,331	873	807,204	7,921,531	4,693,973	3,227,558
December	1,428,563	930	1,429,493	14,028,391	10,766,726	3,261,665
January 2006	1,081,236	61	1,081,297	10,611,354	13,211,322	(2,599,968)
February	1,165,492	(209)	1,165,283	11,435,555	10,565,952	869,603
March	948,640	(4)	948,636	9,309,481	11,021,682	(1,712,201)
April	367,268	319	367,587	3,607,330	7,395,691	(3,788,361)
May	291,029	0	291,029	2,856,025	3,153,342	(297,317)
June	103,230	0	103,230	1,013,052	2,231,674	(1,218,622)
July	129,853	750	130,603	1,281,678	1,403,987	(122,309)
August	154,876	0	154,876	1,519,883	1,282,970	236,913
September	235,390	0	235,390	2,310,010	1,390,015	919,995
October	595,636	(1)	595,635	5,845,289	2,519,365	3,325,924
Subtotal	7,307,544	2,719	7,310,263	71,739,579	69,636,699	2,102,880
November 2006	761,533	0	761,533	7,473,337	6,853,217	620,120
December	973,214	0	973,214	9,550,678	9,095,372	455,306
January 2007	1,351,123	0	1,351,123	13,259,302	10,859,666	2,399,636
February	1,573,372	1,777	1,575,149	15,457,791	15,838,831	(381,040)
March	825,113	0	825,113	8,097,283	14,394,150	(6,296,867)
April	679,360	172	679,532	6,868,617	7,401,599	(732,982)
May	234,872	60	234,932	2,305,515	4,335,682	(2,030,167)
June	201,300	0	201,300	1,975,466	1,843,242	132,224
July	248,719	56	248,775	2,441,363	1,534,555	906,808
August	181,666	25	181,691	1,783,385	1,444,770	338,615
September	197,205	10	197,215	1,935,761	1,332,147	603,614
October	379,009	658	379,667	3,726,613	1,877,605	1,849,008
Subtotal	7,806,486	2,758	7,609,244	74,675,111	76,810,836	(2,135,725)
November 2007	929,018	190	929,208	9,120,619	4,800,038	4,320,581
December	1,320,913	729	1,321,642	12,972,547	10,713,970	2,258,577
January 2008	1,505,065	455	1,505,520	14,777,402	15,084,880	(307,478)
February	1,404,848	(132)	1,404,716	13,787,961	15,955,684	(2,167,723)
March	1,118,709	(94)	1,118,615	10,979,737	13,894,374	(2,914,637)
April	563,288	1	563,289	5,528,945	8,734,807	(3,205,862)
May	367,285	56	367,291	3,605,133	3,633,776	(28,643)
June	206,383	107	206,490	2,026,796	2,303,074	(276,278)
July	239,816	0	239,816	2,353,907	1,536,719	817,188
August	181,421	22	181,443	1,774,503	1,398,943	375,560
September	203,946	255	204,201	1,997,076	2,448,242	(451,166)
Subtotal	8,040,692	1,589	8,042,231	78,924,626	80,504,507	(1,579,881)
TOTAL	22,954,722	7,066	22,961,738	225,339,316	226,952,042	(1,612,726)

ability to forecast choice customer requirements. During the audit period, annual reconciliation imbalance volumes were generally less than 3 percent of annual delivered volumes, suggesting VEDO's choice forecasting procedures are reasonable.

VEDO provides operational balancing for choice suppliers to balance the actual usage of their customers and the deliveries by the suppliers to VEDO's citygates. Suppliers are assessed a Balancing Cost Rider charge to recover the interstate pipeline transportation and storage capacity associated with the provision of operational balancing. The Balancing Cost Rider is assessed on all volumes consumed by a supplier's customers.

VEDO utilizes its no-notice Columbia Gas storage and related transportation to provide daily and hourly balancing and its Panhandle EFT capacity to provide hourly balancing. Columbia Gas storage is also used to manage accumulated daily and monthly imbalances between actual usage and supplier deliveries until quarterly or annual reconciliation.

A portion of the Balancing Cost Rider charge is based on a calculation of the amount of Columbia Gas storage required to provide operational balancing. The calculation considers the variability of actual demands around the demand forecasts to develop a system-wide volumetric balancing need estimate. VEDO has determined that the average difference between the actual and forecasted demands of sales and choice customers is 7 percent. This 7 percent is then applied to the projected design peak day demand of sales and choice customers to determine the amount of Columbia Gas daily deliverability is required for operational balancing. A proportionate amount of Columbia Gas seasonal storage capacity is assigned to operational balancing. The costs associated with the Columbia Gas storage deliverability and capacity assigned to operational balancing are then determined and priced out and converted to dollars per Mcf of annual sales and choice throughput. This unit rate is then reduced by 75 percent to obtain the Columbia Gas storage component of operational balancing. The 75 percent reduction from the fully storage costs recognizes that choice suppliers do not

have access to the daily deliverability or the seasonal storage capacity of Columbia Gas storage.

In addition, the incremental cost of VEDO's agreement for Panhandle EFT service (1/16th hourly) over the cost of regular Panhandle FT service (1/24th hourly) is included in the calculation of the Balancing Cost Rider. This difference was \$0.50 per Dth during the audit period. The incremental \$0.50 per Dth is multiplied by the annual sum of VEDO's Panhandle EFT capacity entitlements, divided by annual sales and choice throughput, and then added to the Columbia Gas storage component of operational balancing.

VEDO's Balancing Cost Rider has ranged between 3.20 cents and 3.63 cents per Dth during the audit period. Balancing Cost Rider revenues, which are credited to the GCR, totaled \$812,211 during the audit period.

6.2 Traditional Large Transportation Service

6.2.1 Background and Participation

Traditional large transportation customers are served under Rate 345. To qualify for service under Rate 345, a customer's annual usage must exceed 15,000 Mcf. Suppliers serving customers under Rate 345 may utilize pooling service which is available under Rate 380. As shown on Table 6.1, the number of customers taking service under Rate 345 has been stable during the audit period. Nearly 50 percent of the deliveries to VEDO's large transportation customers are provided at discounted base rates. These customers are generally offered discounted base rates to minimize the threat of bypassing VEDO's system and taking service directly from an interstate pipeline, or to address competition from entities outside of VEDO's service territory.

6.2.2 Service Terms and Conditions

The same terms and conditions of service are applicable to non-pooling transportation customers and to customers served by a supplier utilizing pooling service. Unlike choice suppliers and customers, traditional transportation customers taking service under Rate 345 or their suppliers are not subject to VEDO's comparable

capacity requirement nor are they entitled to an allocation of VEDO's propane facility capacity.

At the commencement of the audit period, customers or their suppliers were required to provide an estimate of their daily gas deliveries for each month prior to the 15th day of the month prior to delivery. Customers were able to adjust their estimated deliveries, or nominations, by 10:00 A.M. CCT on the day prior to the delivery. Large transportation customers were required to utilize their best efforts to reasonably balance gas deliveries and consumption on a daily basis. At this time, VEDO offered two balancing service options: Standard Balancing Service and Enhanced Balancing Service, and all customers subscribed to Standard Balancing Service. No customers subscribed to Enhanced Balancing Service. These balancing services were designed based on a "no harm, no foul" approach.

In Case No. 04-571-GA-AIR, VEDO proposed modifications to its existing nomination procedures and balancing service options. On April 13, 2005, the Commission issued an opinion and order approving and adopting a Stipulation in Case No. 04-571-GA-AIR which provided for the convening of a transportation working group ("TWG") to address issues raised by VEDO's proposed modifications. On May 26, 2006, the TWG filed a Stipulation and Recommendation ("2006 Stipulation") which provided for alternative modifications to VEDO's nomination procedures and balancing requirements. Those alternative modifications were approved by the Commission and became effective September 1, 2006.

Under the approved modified procedures, transportation customers are required to provide nominations to the Company by 11:00 AM CCT on the day prior to delivery. VEDO will accept nominations submitted after this time in accordance with interstate pipeline nomination schedules. Transporters are required to notify VEDO of the exact quantity of gas to be delivered at VEDO's pipeline delivery points. VEDO may require a transportation customer to allocate deliveries to specific citygate pipeline delivery points based on minimum and maximum allocation percentages which VEDO may revise from

time to time based on operational considerations. Transportation customers are also required to submit nominations to the delivering interstate pipeline.

Transportation customers are subject to a Nomination Error Charge of 25 cents per Dth per day on the quantity difference between the customer's nomination to VEDO and the quantity of gas confirmed for delivery by the interstate pipeline(s).

Transportation customers are allowed two quantity differences each twelve months without charge.

Transportation customers are also subject to a Citygate Allocation Non-Compliance Charge of 50 cents per Dth on the daily quantity difference if the nomination to VEDO is less than the minimum or greater than the maximum citygate allocations required by the Company. Transportation customers are also allowed two quantity differences each twelve months without charge. Pursuant to the 2006 Stipulation, Nomination Error Charges and Citygate Allocation Non-Compliance Charges, and the non-gas portions of all imbalance cash-outs which are discussed later in the chapter are credited to VEDO's PIPP Rider which is assessed to all GCR and choice customers. The balancing provisions provided for under the 2006 Stipulation, and the Standard Balancing Service offered at the commencement audit period are subsequently discussed. Enhanced Balancing Service, which was also offered at the commencement of the audit period, is not discussed because no customers subscribed to the service and it is no longer available.

A. Standard Balancing Service

Under Standard Balancing Service, transportation customers were required to balance actual consumption within the following tolerances:

- Actual consumption could not exceed confirmed deliveries on cold weather OFO days by more than 3 percent;
- Deliveries could not exceed consumption on warm weather OFO days by more than 3 percent; and

- Plus or minus 5 percent of net gas delivered² during the billing month as adjusted for previous months' imbalances.

Under Standard Balancing Service, if a customer's daily imbalance resulted in additional gas costs or other charges to VEDO, including hourly and/or daily pipeline balancing and/or producer charges, the customer was required to compensate the Company for all gas costs and other costs actually charged to VEDO and directly attributable to the customer's imbalance. VEDO divided and shared all charges levied against it for hourly/daily system imbalances with transportation customers by allocating the charges *pro rata* to customers contributing to the imbalance based on each customer's proportionate contribution to the imbalance.

More specifically, VEDO assessed transportation customers for daily imbalances as follows. The cost of accommodating transporters' imbalances depended on the method or interstate pipeline service used by VEDO to accommodate the imbalance. VEDO generally utilized Columbia Gas FSS storage to accommodate differences between daily consumption and the net actual receipts at its citygates. If VEDO's storage position with Columbia Gas was such that it could accommodate imbalances, and either of the following occurred: (a) VEDO was withdrawing gas from Columbia Gas FSS storage on a particular day, and transportation customers' deliveries to VEDO's citygate were less than their consumption on that day; or (b) if VEDO was injecting gas into Columbia Gas FSS storage on a particular day, and transportation customers' deliveries to VEDO's citygate exceeded their consumption on that day, an unfavorable imbalance was experienced, and costs incurred by VEDO in the form of additional withdrawal or injection charges, respectively, were recovered from "offending" transporters. Under this scenario, the net "unfavorable" imbalance of all transportation customers was multiplied by a charge equal to the sum of the 100 percent load factor rate equivalent of the demand charges associated with Columbia Gas FSS storage, variable injection (or withdrawal) charges and the associated variable SST transportation charge to determine the total additional costs incurred by VEDO. These

² Net gas delivered is defined as deliveries adjusted for the customers' prior day imbalance and fuel retention.

total additional costs were then divided by the sum of all unfavorable imbalances experienced by transportation customers to determine an applicable unfavorable imbalance rate. Transportation customers with an unfavorable imbalance were then assessed charges based on their unfavorable daily imbalance and the unfavorable daily imbalance rate.

On a monthly basis, all imbalances which exceeded the 5 percent monthly tolerance were reconciled through a cash-out mechanism. Volumes of gas that were not sold or purchased by VEDO under the cash-out mechanism were carried forward and considered in computing compliance with the 5 percent monthly tolerance in the following month. Under the cash-out procedures, if a customer's net gas deliveries exceeded actual consumption, VEDO purchased deliveries which were in excess of 5 percent of consumption. The purchase price was equal to the weighted average cost of the Company's three least expensive sources of gas supply purchased during the billing month for general system supply, less any additional producer costs incurred as a result of purchasing gas from the customer.

If a customer's actual consumption exceeded net gas deliveries, VEDO sold gas to the customer in the amount equivalent to the delivery shortfall which exceeded the 5 percent monthly tolerance. The sales price was equal to: (1) the highest incremental commodity cost of gas or the cost of propane-air gas supply if used by the Company on the day excess gas is consumed by the customer; (2) all other pipeline and producer charges incurred in providing the gas supply; (3) the applicable gross receipts excise tax; and (4) the applicable transportation charges.

B. 2006 Stipulation Balancing Provisions

The 2006 Stipulation approved in Case No. 04-571-GA-AIR included daily and monthly balancing provisions. Under the daily balancing provisions, transportation customers are required to balance their total daily usage with total daily deliveries, adjusted for fuel retention. If an imbalance between daily usage and deliveries exists, daily under-delivery or over-delivery charges may be assessed. The Daily Under-Delivery Charge is equal to the sum of the Daily Midpoint Price per Dth reported in Gas

Daily for delivery to Columbia Gas, Appalachia, and the maximum interruptible pipeline transportation rate, including fuel and all surcharges. The Daily Over-Delivery Charge is equal to the sum of the same *Gas Daily* Columbia Gas index price and the firm pipeline transportation variable rate, including fuel and all surcharges.

More specifically, if deliveries are less than usage, the quantity difference is considered a daily under-delivery imbalance. For the period September 1, 2006 through October 31, 2007, daily under-delivery quantities up to and including 20 percent of usage were carried to month-end. Daily under-delivery quantities in excess of 20 percent were cashed-out (sold by VEDO) as follows:

1. 1.05 times the Daily Under-Delivery Charge for each Dth that is greater than 20 percent, up to and including 30 percent of usage;
2. 1.2 times the Daily Under-Delivery Charge for each Dth that is greater than 30 percent of usage; and
3. Applicable taxes.

If deliveries are greater than usage, the quantity difference is considered a daily over-delivery imbalance. For the period September 1, 2006 through October 31, 2007, daily over-delivery quantities up to and including 20 percent usage are carried to month-end. Daily over-delivery quantities in excess of 20 percent are cashed-out (purchased by VEDO) as follows:

1. .90 times the Daily Over-Delivery Charge for each Dth that is greater than 20 percent, up to and including 30 percent of usage; and
2. .75 times the Daily Over-delivery Charge for each Dth that is greater than 30 percent of usage.

Under the monthly balancing provisions provided for in the 2006 Stipulation, transportation customers are required to balance their total month usage with total monthly deliveries, adjusted for fuel retention. Deliveries are also adjusted for daily cash-out quantities during the month and any monthly imbalance carried forward from the prior month. If an imbalance between monthly usage and deliveries exists, monthly

under-delivery or over-delivery charges may be assessed. The Monthly Under-Delivery Charge is equal to sum of the average of the Daily Midpoint Price per Dth reported in *Gas Daily* for delivery to Columbia Gas, Appalachia, and the maximum interruptible transportation rate, including fuel and all surcharges. The Monthly Over-Delivery Charge is equal to the sum of the same average *Gas Daily* Columbia Gas index price and the firm pipeline transportation variable rate, including fuel and all surcharges. If monthly deliveries are less than usage, the quantity difference is considered a monthly under-delivery imbalance. Monthly under-delivery imbalance quantities up to and including 5 percent of monthly usage are carried forward to the following month. Quantities in excess of 5 percent are cashed-out (sold by VEDO) as follows:

1. 1.05 times the Monthly Under-Delivery Charge for each Dth that is greater than 5 percent, up to and including 15 percent of usage;
2. 1.2 times the Monthly Under-Delivery Charge for each Dth that is greater than 15 percent of usage; and
3. Applicable taxes.

If monthly deliveries are greater than usage, the quantity difference is considered a monthly over-delivery imbalance. Monthly over-delivery imbalance quantities up to and including 5 percent of monthly usage are carried forward to the following month. Quantities in excess of 5 percent are cashed-out (purchased by VEDO) as follows:

1. .90 times the Monthly Over-Delivery Charge for each Dth that is greater than 5 percent, up to and including 15 percent; and
2. .75 times the Monthly Over-Delivery Charge for each Dth that is greater than 15 percent of usage.

The daily imbalance tolerances provided for under the 2006 Stipulation became effective September 1, 2006. The 2006 Stipulation also provided that if during the 12-month period ended August 2007, transportation customers in the aggregate, exceeded a 20 percent daily imbalance tolerance for more than 10 percent of the days in the 12-month period, reduced daily imbalance tolerances would become effective November 1, 2007. VEDO's review of transportation customer imbalances indicated

that the 20 percent daily imbalance tolerance was exceeded on more than 10 percent of the days during the review period. Thus, effective November 1, 2007, each daily imbalance tolerance was reduced by 5 percentage points.

The 2006 Stipulation provided for alternate imbalance and cash-out provisions during OFO periods. During a cold weather OFO period, transportation customers are subject to the following charges if their daily under-delivery imbalance exceeds 5 percent:

1. The Daily Under-Delivery Charge on quantities in excess of 5 percent; plus
2. The higher of (a) all other charges incurred by the VEDO and attributable to the transportation customer's imbalances, including pipeline penalty charges on the OFO quantity, or (b) an OFO Imbalance Charge of \$10 per Dth on the portion of the daily under-delivery imbalance quantity that is greater than 5 percent of usage; plus
3. Applicable taxes.

During a warm weather OFO period, transportation customers are subject to the following charges if their daily over-delivery imbalance exceeds 5 percent:

1. The higher of (a) all charges incurred by VEDO and attributable to the transportation customer's imbalance, including pipeline penalty charges; or (b) an OFO Imbalance Charge of \$10 per Dth on the portion of the daily over-delivery imbalance quantity that is greater than 5 percent of usage; plus
2. Applicable taxes.

6.2.3 Imbalances

Table 6.4 summarizes the imbalances, cash-out and carry forward quantities of general transportation customers since the implementation of the 2006 Stipulation. Similar data for prior periods is not available because this information was not required to be maintained until the terms of 2006 Stipulation were implemented. Throughout the

Table 6.4

VECTREN ENERGY DELIVERY OF OHIO, Inc.
Summary of Audit Period Traditional Transportation Customer Imbalances
(Mcf)

Month	Monthly Deliveries	Monthly Usage	Monthly Difference	DAILY BALANCING		MONTHLY BALANCING		
				Cashout Sale	Cashout Purchase	Cashout Sale	Cashout Purchase	Carry Forward
September	956,080	973,635	(17,555)	8,697	14,290	4,679	628	(13,504)
October	1,299,564	1,339,216	(40,430)	16,175	24,523	6,717	0	(32,935)
Subtotal	2,255,644	2,312,851	(57,985)	24,872	38,813	11,396	628	
November 2006	1,474,632	1,449,094	(24,462)	8,036	31,147	6,021	3,088	(21,529)
December	1,677,520	1,668,725	8,795	7,324	80,780	597	714	8,678
January 2007	1,918,754	1,974,890	(56,136)	26,604	39,795	8,401	0	(47,735)
February	2,146,601	2,190,989	(44,388)	7,039	3,840	8,674	549	(36,263)
March	1,461,545	1,563,607	(102,062)	7,740	38,564	32,987	0	(69,075)
April	1,359,386	1,394,056	(34,670)	11,328	28,303	8,319	0	(26,351)
May	986,216	1,012,548	(26,332)	4,933	10,532	10,222	600	(16,710)
June	881,929	894,741	(12,812)	738	2,707	3,482	1,037	(10,367)
July	873,591	877,182	(3,591)	7,276	3,950	10,080	315	6,174
August	950,418	928,435	21,983	455	3,778	2,931	7,462	17,452
September	916,200	908,134	8,066	4,288	8,847	7,479	3,538	12,007
October	1,047,406	1,062,735	(15,329)	11,746	13,864	1,781	0	(13,548)
Subtotal	15,694,198	15,925,136	(280,938)	97,507	266,107	100,974	17,303	
November 2007	1,434,968	1,472,663	(37,705)	17,454	26,182	4,805	0	(32,900)
December	1,756,203	1,781,575	(25,372)	16,396	36,471	1,504	0	(23,868)
January 2008	2,037,194	2,056,405	(19,171)	27,184	38,964	678	0	(18,493)
February	2,057,213	2,107,920	(50,707)	23,223	39,239	1,993	389	(48,103)
March	1,838,103	1,869,340	(31,087)	15,492	29,458	2,099	0	(28,988)
April	1,600,570	1,625,670	(25,100)	7,712	9,693	9,103	771	(16,768)
May	1,457,191	1,484,835	(27,644)	11,954	32,270	4,870	1,582	(24,356)
June	1,263,990	1,304,120	(40,130)	2,422	37,561	5,820	754	(35,064)
July	1,258,386	1,313,794	(55,408)	11,670	17,539	20,741	472	(35,139)
August	1,359,870	1,377,854	(17,984)	2,702	9,462	3,591	701	(15,094)
September	1,351,782	1,377,804	(26,022)	8,204	21,106	28,579	2,537	20
Subtotal	17,415,470	17,771,980	(356,330)	144,413	297,945	83,783	7,206	
TOTAL	35,365,312	36,009,967	(695,253)	266,792	602,865	196,153	25,137	

audit period, transportation customers were entitled to trade imbalances, to reduce or eliminate their imbalances.

6.3 Conclusions and Recommendations

6.3.1 Choice Transportation Service

Our audit revealed no concerns with respect to choice suppliers delivering gas as directed by VEDO, nor the imbalances between the quantity of gas VEDO directs choice suppliers to deliver and the actual usage of choice customers.

6.3.2 Traditional Transportation Service

Revised balancing procedures were implemented for traditional transportation customers effective September 1, 2006. These procedures were modified slightly effective November 1, 2007. The revised procedures require, among other things, that on a monthly basis deliveries and usage balance within 5 percent. Imbalances within 5 percent are carried forward to the following month. Imbalances which exceed 5 percent are cashed out at price which reflects the average of the applicable month's Columbia Gas Transmission daily index prices, adjusted for a multiple contingent upon the extent to which the imbalance exceeds 5 percent.

During July 2008, gas prices experienced an unprecedented decline, falling nearly \$4.00 per Dth. This provided large transportation customers the opportunity to realize a gain at the expense of GCR customers. Such a gain could have been realized through the overdelivery of gas which then would have been purchased by VEDO at prices well in excess of the prices paid for overdelivered gas supplies by transportation customers. Our audit revealed that transportation customers did not increase deliveries to capture the potential benefit. In addition, our audit revealed that during peak periods, deliveries by traditional transportation customers generally exceeded usage. As such, we conclude that VEDO's revised balancing procedures provided sufficient protection for GCR customers during the audit period.

APPENDIX A

VECTREN ENERGY DELIVERY OF OHIO, INC.

Index of General Audit Requirements

	<u>Section(s)</u>
(1) Examine the Company's peak day and winter season forecasting methodology for both sales and choice customers. Examine the variables utilized in the development of the forecasting methodology, as well as the assumptions and probability of occurrence, and determine the probability of occurrence of such a peak day forecast. Compare the forecast results to actual send-outs to assess the accuracy of the forecasting methodology. Verify that the forecasting methodology is consistent between sales and choice customers, and if any differences between them assess the rationale for such differences. Compare the company's forecasted peak day and seasonal demands to the portfolio of commodity and capacity entitlements under contract.....	4.3.1
(2) Compile the Company's audit period activities as they relate to the utilization of supply and capacity agreements. Evaluate the Company's efforts to maximize unutilized capacity through capacity release programs or capacity assignment agreements with third parties. Determine if the company's strategy of contracting for capacity entitlements has minimized unutilized capacity.....	4.2.3; 5.3 and 5.7

APPENDIX B

VECTREN ENERGY DELIVERY OF OHIO, INC. Index of Company-Specific Audit Requirements

	<u>Section</u>
(1) Verify that the Company examined its peak day design criteria to determine the appropriateness of the criteria's applicability and values for use in the modeling of Vectren's peak day send-out for gas supply planning purposes.	4.3.1
(2) Review the Company's statistical analysis on its late winter peaking criterion to evaluate the appropriate date for retention of storage ratchets.	5.6
(3) Examine the Company's internal audit of its gas supply process profiles and procedures, focusing on document control.	3.5
(4) Determine if the company conducted further analysis of its expansion of propane vaporization capacity to displace pipeline or storage capacity.	4.2.2(c)

APPENDIX C

VECTREN ENERGY DELIVERY OF OHIO
Audit Period Purchased Gas Cost Billing Determinants
Dth

		Nov 2005	Dec 2005	Jan 2006	Feb 2006	Mar 2006	Apr 2006	May 2006	Jun 2006	Jul 2006	Aug 2006	Sept 2006	Oct 2006
TRANSPORTATION													
ANR Pipeline													
EFT 111879	Demand	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
	Variable	119,445	154,287	154,287	139,356	2,160	150,000	155,000	0	0	5,000	418	154,996
	Commodity	122,565	158,317	158,317	142,995	158,317	152,460	157,542	0	0	5,082	30,328	157,569
Columbia Gas Transmission													
	Demand	200,000	200,000	200,000	200,000	200,000	100,000	100,000	100,000	100,000	100,000	100,000	200,000
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Injection	0	18,774	63,317	36,677	73,543	875,318	963,338	508,266	724,524	729,765	575,074	358,197
	Withdrawal	885,885	1,523,495	637,542	1,216,390	807,115	77,525	7,041	0	0	0	0	223,189
	Variable	0	0	0	0	0	899,880	802,500	600,000	655,000	899,970	580,620	760,971
	Commodity	0	0	0	0	0	919,020	819,564	612,750	668,924	949,747	612,750	777,164
Panhandle Eastern													
EFT 20349	Demand	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	1,124,991	1,162,226	850,950	768,741	851,229	1,116,133	1,162,485	1,093,098	1,050,342	837,149	805,913	991,649
	Commodity	1,183,560	1,223,012	1,221,059	1,103,029	1,221,360	1,145,194	1,219,185	1,146,421	1,090,135	883,754	845,215	1,040,005
EFT 20351	Demand	10,521	31,288	31,288	31,288	31,288	31,288	10,521	10,521	10,521	10,521	10,521	10,521
EFT 20348	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	204,816	969,912	420,863	230,464	215,819	139,432	289,197	37,830	39,090	37,830	37,830	261,377
EFT 23514	Demand	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Trunkline													
EFT 19808	Demand	10,621	31,585	31,585	31,585	31,585	31,585	10,621	10,621	10,621	10,621	10,621	10,621
EFT 19423	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	206,886	979,773	426,803	232,784	217,823	140,727	291,882	38,181	39,453	38,181	38,181	263,863
	Commodity	212,230	1,003,249	435,291	238,356	222,155	143,526	297,687	38,940	40,238	40,238	38,940	269,102
EFT 21594	Demand	0	0	0	0	0	0	0	0	0	0	0	0
EFT 20395	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Texas Gas Transmission													
FT T026772	Demand	40,000	40,000	40,000	40,000	40,000	40,000	2,000	2,000	2,000	2,000	2,000	2,000
FT T022329	Variable	587,675	1,165,941	1,053,420	985,334	731,539	354,974	62,000	60,272	64,077	64,764	60,000	58,632
	Commodity	608,205	1,195,080	1,079,766	1,009,978	749,839	368,338	63,984	61,920	63,984	63,984	61,918	59,985
Texas Eastern Transmission													
LLFT 870172	Demand	10,500	31,225	31,225	31,225	31,225	31,225	10,500	10,500	10,500	10,500	10,500	10,500
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	110,310	830,226	283,506	93,929	78,337	56,842	248,970	37,650	1,260	37,650	37,650	139,044
LLFT 870173	Demand	23,580	23,580	23,580	23,580	23,580	0	0	0	0	0	0	0
	Variable	93,636	179,191	309,659	309,659	309,659	0	0	0	0	0	0	0
FT-1 910555R1	Demand	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	90,396	129,828	129,828	129,828	129,828	79,100	37,541	37,541	37,541	37,541	37,541	37,572
LOCAL PRODUCTION													
BioMass													
	Commodity	29,592	27,498	30,033	24,997	22,250	25,419	36,217	45,612	39,307	37,664	36,340	38,783
	Delivery	29,592	26,828	29,300	24,385	21,708	24,637	35,100	44,207	39,307	37,664	36,340	38,783
STORAGE													
Panhandle Eastern													
	Demand	46,080	46,080	46,080	46,080	46,080	21,450	21,450	21,450	21,450	21,450	21,450	21,450
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Deliverability	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Capacity	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Injection	0	0	0	0	0	517,000	492,659	521,527	616,387	363,276	318,902	141,700
	Deliveries	0	0	0	0	0	509,101	485,131	513,550	606,955	357,708	314,030	139,536
	Withdrawal	233,448	656,000	548,002	800,000	650,995	0	0	0	0	0	0	0
	Deliveries	234,621	659,298	550,756	804,020	654,270	0	0	0	0	0	0	0
Columbia Gas Transmission													
	Deliverability	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Capacity	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Injection	39,943	18,774	63,216	36,736	73,543	876,719	964,879	549,082	725,683	730,933	575,994	358,770
	Withdrawal	904,028	1,503,018	650,600	1,241,302	823,644	79,174	7,191	0	0	0	0	227,937

APPENDIX C

VECTREN ENERGY DELIVERY OF OHIO
Audit Period Purchased Gas Cost Billing Determinants
Dth

		Nov 2006	Dec 2006	Jan 2007	Feb 2007	Mar 2007	Apr 2007	May 2007	Jun 2007	Jul 2007	Aug 2007	Sep 2007	Oct 2007
TRANSPORTATION													
ANR Pipeline													
EFT 111879	Demand	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
	Commodity	0	0	0	0	0	0	0	0	0	0	0	0
Columbia Gas Transmission													
	Demand	200,000	200,000	200,000	200,000	200,000	100,000	100,000	100,000	100,000	100,000	100,000	200,000
	Released	0	0	0	0	0	0	0	0	0	{3,238}	{3,238}	{6,475}
	Injection	345,376	42,012	17,655	13,984	0	806,873	1,604,099	1,387,813	1,291,000	1,223,831	1,273,771	206,385
	Withdrawal	340,664	1,293,205	1,949,518	2,039,701	506,326	351,444	151,631	0	0	0	0	327,998
	Variable	0	1,389,982	1,928,490	530,000	170,000	960,000	1,636,093	1,299,375	1,130,485	1,194,972	1,250,000	485,000
	Commodity	0	0	0	541,275	173,615	979,488	1,669,306	1,331,444	1,153,422	1,219,229	1,275,360	494,830
Panhandle Eastern													
EFT 20349	Demand	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500
	Released	0	0	0	0	0	0	0	0	0	{1,214}	{1,214}	{1,214}
	Variable	1,124,987	1,162,500	1,160,175	1,047,200	326,182	1,122,936	1,133,639	1,125,000	1,162,410	996,836	829,710	742,273
	Commodity	1,176,169	1,219,982	1,212,854	1,158,812	1,215,353	1,178,220	1,189,439	1,180,350	1,219,636	1,045,909	870,528	778,839
EFT 20351	Demand	10,521	10,521	10,521	10,521	10,521	10,521	10,521	10,521	10,521	10,521	10,521	10,521
EFT 20348	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	210,604	333,666	257,577	400,369	457,622	138,622	93,915	37,680	38,936	38,832	37,604	38,936
EFT 23514	Demand	5,000	19,066	19,066	5,000	5,000	0	0	0	0	0	0	0
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Trunkline													
EFT 19808	Demand	10,621	10,621	10,621	10,621	10,621	10,621	10,621	10,621	10,621	10,621	10,621	10,621
EFT 19423	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	212,482	336,613	259,854	403,852	461,587	140,716	92,295	38,048	39,308	39,203	37,964	39,308
	Commodity	215,400	341,243	263,470	409,420	467,951	142,685	96,157	38,590	39,866	39,203	38,577	39,866
EFT 21594	Demand	5,042	19,226	19,226	5,042	5,042	0	0	0	0	0	0	0
EFT 20395	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Texas Gas Transmission													
FT T026772	Demand	40,000	40,000	40,000	40,000	40,000	40,000	2,000	2,000	2,000	2,000	2,000	2,000
FT T022329	Variable	867,378	841,799	889,052	1,135,629	639,603	799,994	62,000	59,993	25,318	3,000	15,000	15,469
	Commodity	889,530	863,305	911,759	1,164,616	655,925	818,160	63,395	61,350	25,899	3,070	15,328	15,809
Texas Eastern Transmission													
LLFT 870172	Demand	10,500	31,225	31,225	31,225	31,225	31,225	10,500	10,500	10,500	10,500	10,500	10,500
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	112,750	207,116	131,173	276,526	320,415	63,016	93,504	37,500	38,781	38,812	37,520	38,781
LLFT 870173	Demand	23,580	23,580	23,580	23,580	23,580	0	0	0	0	0	0	0
	Variable	0	0	0	0	832,722	0	0	0	0	0	0	0
FT-1 910555R1	Demand	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	93,594	125,090	125,271	117,572	130,170	72,694	0	36,360	37,572	37,603	36,350	37,572
LOCAL PRODUCTION													
BioMass	Commodity	39,605	48,347	26,492	21,941	37,804	39,893	34,807	20,798	31,654	14,322	25,290	22,952
	Delivery	39,605	48,347	26,492	21,941	37,804	39,893	34,807	20,798	31,654	14,322	25,290	22,952
STORAGE													
Panhandle Eastern													
	Demand	46,080	46,080	46,080	46,080	46,080	21,450	21,450	21,450	21,450	21,450	21,450	21,450
	Released	0	0	0	0	0	0	0	0	0	{695}	{695}	{695}
	Deliverability	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704
	Released	0	0	0	0	0	0	0	0	0	{1,492}	{1,492}	{1,492}
	Capacity	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280
	Released	0	0	0	0	0	0	0	0	0	{11,188}	{11,188}	{11,188}
	Injection	0	0	0	0	0	361,895	651,000	630,000	566,000	496,000	331,000	102,851
	Deliveries	0	0	0	0	0	354,637	638,321	617,700	554,956	486,328	324,544	100,844
	Withdrawal	0	320,000	860,000	1,272,960	608,640	0	0	0	0	0	0	0
	Deliveries	0	321,408	863,805	1,278,592	611,333	0	0	0	0	0	0	0
Columbia Gas Transmission													
	Deliverability	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
	Released	0	0	0	0	0	0	0	0	0	{6,475}	{6,475}	{6,475}
	Capacity	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000
	Released	0	0	0	0	0	0	0	0	0	{247,600}	{247,600}	{247,600}
	Injection	355,960	42,012	17,655	14,006	77,131	808,408	1,607,147	1,390,442	1,291,000	1,223,831	1,273,771	206,778
	Withdrawal	360,091	1,293,205	1,949,518	2,083,088	642,971	358,575	154,708	0	0	0	0	334,655

APPENDIX C

VECTREN ENERGY DELIVERY OF OHIO
Audit Period Purchased Gas Cost Billing Determinants
Dth

		Nov 2007	Dec 2007	Jan 2008	Feb 2008	Mar 2008	Apr 2008	May 2008	Jun 2008	Jul 2008	Aug 2008	Sep 2008	Audit Total
TRANSPORTATION													
ANR Pipeline													
EFT 111879	Demand	0	0	0	0	0	0	0	0	0	0	0	60,000
	Variable	0	0	0	0	0	0	0	0	0	0	0	1,034,949
	Commodity	0	0	0	0	0	0	0	0	0	0	0	1,243,492
Columbia Gas Transmission													
	Demand	200,000	200,000	200,000	200,000	200,000	100,000	100,000	10,000	100,000	100,000	100,000	5,110,000
	Released	(6,475)	(6,475)	(6,475)	(6,475)	(6,475)	0	0	0	0	0	(9,723)	(55,049)
	Injection	180,900	44,046	24,902	15,923	8,322	1,199,942	1,018,573	1,347,704	1,395,427	1,223,585	989,880	20,588,796
	Withdrawal	328,929	1,157,131	2,346,609	2,047,440	1,306,819	76,646	0	0	0	0	0	19,602,243
	Variable	0	0	0	0	0	1,411,167	1,304,008	1,370,000	1,460,539	1,220,004	1,103,661	25,042,717
	Commodity	0	0	0	0	0	1,440,830	1,332,718	1,400,140	1,492,692	1,246,820	1,127,920	22,239,008
Panhandle Eastern													
EFT 20349	Demand	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	37,500	1,312,500
	Released	(1,214)	(1,214)	(1,214)	(1,214)	(1,214)	0	0	0	0	0	(3,647)	(13,359)
	Variable	1,085,361	1,090,456	1,124,861	1,052,294	1,124,897	1,125,000	1,105,232	1,120,893	1,162,500	1,162,500	1,015,620	35,918,368
	Commodity	1,150,049	1,153,083	1,189,425	1,112,730	1,189,500	1,186,710	1,203,044	1,182,378	1,226,267	1,226,266	1,071,330	39,658,802
EFT 20351	Demand	10,521	10,521	10,521	10,521	10,521	10,521	10,521	10,521	10,521	10,521	10,521	472,070
EFT 20348	Released	0	0	0	0	0	0	0	0	0	0	(1,023)	(1,023)
	Variable	193,520	193,223	238,583	279,319	325,174	269,760	62,310	37,710	38,936	38,337	23,606	6,669,301
EFT 23514	Demand	0	0	5,000	5,000	0	0	0	0	0	0	0	63,132
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Trunkline													
EFT 19808	Demand	10,621	10,621	10,621	10,621	10,621	10,621	10,621	10,621	10,621	10,621	10,621	476,555
EFT 19423	Released	0	0	0	0	0	0	0	0	0	0	(1,033)	(1,033)
	Variable	195,706	327,319	241,161	282,493	328,859	272,640	62,992	38,100	39,340	38,734	23,856	6,866,967
	Commodity	199,723	334,545	271,654	285,626	336,105	278,670	64,387	38,940	40,238	39,535	20,635	7,022,538
EFT 21594	Demand	0	0	5,057	5,057	0	0	0	0	0	0	0	63,692
EFT 20395	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Texas Gas Transmission													
FT T026772	Demand	40,000	40,000	40,000	40,000	40,000	8,500	0	0	0	0	0	712,500
FT T022329	Variable	962,800	1,240,031	943,718	893,353	1,124,131	255,000	0	0	0	0	0	16,021,896
	Commodity	990,634	1,275,874	971,010	919,176	1,156,647	260,670	0	0	0	0	0	16,449,138
Texas Eastern Transmission													
LLFT 870172	Demand	10,500	31,225	31,225	31,225	31,225	31,225	10,500	10,500	10,500	10,500	10,500	678,375
	Released	0	0	0	0	0	0	0	0	0	0	(1,021)	(1,021)
	Variable	194,337	192,386	105,934	278,122	323,779	268,590	62,031	37,560	38,781	38,184	23,500	4,914,472
LLFT 870173	Demand	23,580	23,580	23,580	23,580	23,580	0	0	0	0	0	0	353,700
	Variable	0	0	0	0	0	0	0	0	0	0	0	2,034,526
FT-1 910555R	Demand	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	4,200	147,000
	Released	0	0	0	0	0	0	0	0	0	0	(408)	(408)
	Variable	43,291	127,348	127,330	117,770	124,878	75,000	60,233	35,480	37,665	37,085	22,819	2,573,832
LOCAL PRODUCTION													
BioMass	Commodity	0	0	0	0	0	0	0	0	0	0	0	757,617
	Delivery	0	0	0	0	0	0	0	0	0	0	0	757,617
STORAGE													
Panhandle Eastern													
	Demand	46,080	46,080	46,080	46,080	46,080	21,450	21,450	21,450	21,450	21,450	21,450	1,120,200
	Released	(1,472)	(1,472)	(1,472)	(1,472)	(1,472)	0	0	0	0	0	(2,086)	(11,531)
	Deliverability	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	46,704	1,634,640
	Released	(1,492)	(1,492)	(1,492)	(1,492)	(1,492)	0	0	0	0	0	(4,542)	(16,478)
	Capacity	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	350,280	12,259,800
	Released	(11,188)	(11,188)	(11,188)	(11,188)	(11,188)	0	0	0	0	0	(34,060)	(123,564)
	Injection	0	0	0	0	0	296,127	664,764	643,320	664,764	664,764	643,320	9,687,256
	Deliveries	0	0	0	0	0	290,000	651,000	630,000	651,000	651,000	630,000	9,506,341
	Withdrawal	40,226	874,899	1,114,024	1,013,198	685,080	0	0	0	0	0	0	9,677,473
	Deliveries	40,000	870,000	1,107,784	1,007,524	681,245	0	0	0	0	0	0	9,684,656
Columbia Gas Transmission													
	Deliverability	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	7,000,000
	Released	(6,475)	(6,475)	(6,475)	(6,475)	(6,475)	0	0	0	0	0	(19,447)	(71,247)
	Capacity	7,648,000	7,648,000	7,648,000	7,648,000	7,648,000	7,648,483	7,648,483	7,648,483	7,648,483	7,648,483	7,648,483	267,682,898
	Released	(247,600)	(247,600)	(247,600)	(247,600)	(247,600)	0	0	0	0	0	(743,699)	(2,724,499)
	Injection	181,244	44,129	24,902	15,953	8,338	1,201,742	1,018,573	1,349,728	1,397,520	1,223,585	989,880	20,778,007
	Withdrawal	335,607	1,180,613	2,394,230	2,088,992	1,333,338	78,333	0	0	0	0	0	20,024,818

APPENDIX C

VECTREN ENERGY DELIVERY OF OHIO

Audit Period Purchased Gas Rates

Dth

		Nov 2005	Dec 2005	Jan 2006	Feb 2006	Mar 2006	Apr 2006	May 2006	Jun 2006	Jul 2006	Aug 2006	Sep 2006	Oct 2006
TRANSPORTATION													
ANR Pipeline													
EFT 111879	Demand	6.7677	6.7677	6.7677	6.7677	6.7677	6.7677	6.7677	6.7677	6.7677	6.7677	6.7677	6.7677
	Variable	0.0140	0.0140	0.0140	0.0140	1.0000	0.0140	0.0141	0.0000	0.0000	0.0141	1.0000	0.0139
	Commodity	12.8015	11.7050	12.2150	8.7704	7.6849	7.0600	6.7374	0.0000	0.0000	8.0450	4.5080	4.4060
Columbia Gas Transmission													
	Demand	5.8060	5.8060	5.8060	5.8060	5.8060	5.7710	5.7710	5.7710	5.7710	5.7710	5.7710	5.7710
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Injection	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Withdrawal	0.0139	0.0139	0.0139	0.0139	0.0139	0.0139	0.0154	0.0000	0.0000	0.0000	0.0000	0.0154
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0160	0.0174	0.0172	0.0152	0.0160	0.0160	0.0195
	Commodity	0.0000	0.0000	0.0000	0.0000	0.0000	7.6100	7.1196	6.1450	6.1031	7.2275	7.0600	5.5466
Panhandle Eastern													
EFT 20349	Demand	12.7900	12.7900	12.7900	12.7900	12.7900	12.7900	12.8300	12.8300	12.8300	12.8300	12.8300	12.8300
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0419	0.0415	0.0312	0.0504	0.0535	0.0424	0.0419	0.0424	0.0438	0.0419	0.0383	0.0463
	Commodity	8.6202	9.6540	9.6994	9.5155	9.4059	6.4784	6.3973	6.0997	6.1656	6.6743	6.5540	6.3996
EFT 20351	Demand	0.8091	2.7588	2.7588	2.7588	2.7588	2.7588	1.5748	1.5240	1.5748	1.5748	1.5748	1.5810
EFT 20348	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0074	0.0000	0.0000	0.0074	0.0000	0.0074	0.0074	0.0000	0.0074	0.0000	0.0000	0.0070
EFT 23514	Demand	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Trunkline													
EFT 19808	Demand	1.5421	5.3351	5.3351	5.3351	5.3351	5.3351	5.4312	5.2560	5.4312	5.4312	5.4312	5.4374
EFT 19423	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0076	0.0143	0.0094	0.0141	0.0139	0.0147	0.0146	0.0140	0.0138	0.0147	0.0148	0.0144
	Commodity	12.0476	12.5331	10.1947	7.8208	6.9219	7.0959	6.2805	5.8800	5.7975	6.9700	6.7650	5.8308
EFT 21594	Demand	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Texas Gas Transmission													
FT T026772	Demand	9.0000	7.5802	7.7462	7.0550	8.2516	4.9409	6.3302	6.1260	6.3302	6.3302	6.3302	6.3302
FT T022329	Variable	0.0590	0.0590	0.0601	0.0546	0.0573	0.0546	0.0546	0.0546	0.0531	0.0524	0.0546	0.0570
	Commodity	10.4106	12.0866	10.9324	9.0179	7.5135	7.1040	7.0800	5.8450	5.7975	6.8700	6.3275	4.9100
Texas Eastern Transmission													
LLFT 870172	Demand	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0041	0.0048	0.0061	0.0100	0.0112	0.0100	0.0049	0.0277	0.1267	0.0043	0.0043	0.0073
LLFT 870173	Demand	3.3400	3.3400	3.3400	3.3400	3.3400	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0041	0.0041	0.0041	0.0034	0.0041	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
FT-1910555R1	Demand	6.2200	6.2060	6.2060	6.1550	6.1550	6.1550	6.1550	6.1550	6.1550	6.1550	6.1550	6.1180
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0348	0.0340	0.0340	0.0276	0.0295	0.0305	0.0298	0.0017	0.0305	0.0277	0.0348	0.0314
LOCAL PRODUCTION													
BioMass	Commodity	13.8200	11.0800	11.6100	8.1100	6.9900	7.0300	7.0800	5.8400	5.2200	6.1830	5.6970	5.0000
	Delivery	0.0576	0.0590	0.0590	0.0546	0.0546	0.0546	0.0546	0.0546	0.0000	0.0000	0.0000	0.0000
STORAGE													
Panhandle Eastern													
	Demand	3.8800	3.8800	3.8800	3.8800	3.8800	3.8800	3.9000	3.9000	3.9000	3.8800	3.8800	3.9000
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Deliverability	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Capacity	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Injection	0.0000	0.0000	0.0000	0.0000	0.0000	0.0031	0.0031	0.0031	0.0031	0.0031	0.0031	0.0031
	Deliveries	0.0000	0.0000	0.0000	0.0000	0.0000	0.0385	0.0385	0.0385	0.0385	0.0385	0.0385	0.0385
	Withdrawal	0.0031	0.0031	0.0031	0.0031	0.0031	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Deliveries	0.0385	0.0385	0.0385	0.0385	0.0385	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Columbia Gas Transmission													
	Deliverability	1.5010	1.5010	1.5010	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000	1.5000
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Capacity	0.0288	0.0288	0.0288	0.0288	0.0288	0.0288	0.0288	0.0288	0.0288	0.0288	0.0288	0.0288
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Injection	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153
	Withdrawal	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0000	0.0000	0.0000	0.0000	0.0153

APPENDIX C

VECTREN ENERGY DELIVERY OF OHIO

Audit Period Purchased Gas Rates

Dth

		Nov 2006	Dec 2006	Jan 2007	Feb 2007	Mar 2007	Apr 2007	May 2007	Jun 2007	Jul 2007	Aug 2007	Sep 2007	Oct 2007
TRANSPORTATION													
ANR Pipeline													
EFT 111879	Demand	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Commodity	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Columbia Gas Transmission													
	Demand	5.7710	5.7710	5.7710	5.8140	5.8140	5.7970	5.7970	5.7970	5.7970	5.7970	5.7970	5.7970
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	5.7970	5.7970	5.7970
	Injection	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Withdrawal	0.0139	0.0000	0.0000	0.0154	0.0154	0.0146	0.0139	0.0000	0.0000	0.0000	0.0000	0.0146
	Variable	0.0000	0.0161	0.0154	0.0170	0.0170	0.0175	0.0162	0.0149	0.0162	0.0162	0.0162	0.0165
	Commodity	0.0000	0.0000	0.0000	8.5060	7.5483	7.9061	7.9452	7.9830	7.1314	6.3695	5.8341	6.6265
Panhandle Eastern													
EFT 20349	Demand	12.8300	12.8300	12.8300	12.8300	12.8300	12.8300	12.8300	12.8100	12.8100	12.8100	12.8100	12.8100
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	12.8100	12.8100	12.8100
	Variable	0.0417	0.0417	0.0417	0.0403	0.1436	0.0417	0.0418	0.0417	0.0417	0.0417	0.0417	0.0417
	Commodity	7.0488	7.7450	7.8337	7.5868	7.2788	6.4637	6.7711	6.9373	6.4575	6.1578	5.7691	6.0068
EFT 20351	Demand	1.5300	1.5810	1.5810	1.4280	1.5810	1.5300	1.5300	1.5300	1.5810	1.5810	1.5300	1.5717
EFT 20348	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0072	0.0072	0.0072	0.0087	0.0072	0.0072	0.0072	0.0072	0.0072	0.0072	0.0072	0.0075
EFT 23514	Demand	1.9800	1.6628	1.6856	1.9093	1.9800	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Trunkline													
EFT 19808	Demand	5.2620	5.4374	5.4374	4.9112	6.0162	5.3089	5.4374	5.2620	5.4374	5.4374	5.2620	5.4281
EFT 19423	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0146	0.0146	0.0146	0.0176	0.0143	0.0145	0.0143	0.0146	0.0146	0.0146	0.0146	0.0149
	Commodity	7.2570	8.0797	6.4889	7.7519	7.5550	7.6299	7.4752	7.5880	6.8775	6.2986	5.4000	6.4000
EFT 21594	Demand	1.9800	1.6628	1.6856	1.9093	1.9800	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Texas Gas Transmission													
FT T026772	Demand	9.0000	9.3067	9.3000	8.4000	9.3000	5.4000	6.3300	6.1260	6.3302	6.3302	6.1260	6.3302
FT T022329	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0543	0.0531	0.0481	0.0523	0.0524	0.0526
	Commodity	7.2126	8.0416	6.0450	7.3167	7.3237	7.5625	7.4200	7.5600	6.1626	5.6250	5.3250	6.3100
Texas Eastern Transmission													
LLFT 870172	Demand	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400
EFT 19423	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0073	0.0063	0.0212	0.0140	0.0034	0.0085	0.0039	0.0039	0.0039	0.0039	0.0039	0.0042
LLFT 870173	Demand	3.3400	3.3400	3.3400	3.3400	3.3400	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0039	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
FT-1910555R1	Demand	6.1180	6.1182	6.1180	6.1890	6.1890	6.1890	6.1890	6.1890	6.1890	6.2150	6.2150	6.2150
EFT 19423	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0314	0.0227	0.0227	0.0254	0.0254	0.0254	0.0000	0.0254	0.0254	0.0272	0.0272	0.0275
LOCAL PRODUCTION													
BioMass	Commodity	6.3090	7.2700	5.1300	6.2000	6.7100	6.6600	6.6800	6.8000	6.1500	5.4000	5.0000	5.6800
	Delivery	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
STORAGE													
Panhandle Eastern													
	Demand	3.9000	3.9000	3.9000	3.9000	3.9000	3.9000	3.9000	3.8900	3.8900	3.8900	3.8900	3.8900
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	3.8900	3.8900	3.8900
	Deliverability	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	2.9700	2.9700	2.9700
	Capacity	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.4246	0.4246	0.4246
	Injection	0.0000	0.0000	0.0000	0.0000	0.0000	0.0031	0.0031	0.0031	0.0031	0.0031	0.0031	0.0031
	Deliveries	0.0000	0.0000	0.0000	0.0000	0.0000	0.0385	0.0385	0.0385	0.0385	0.0385	0.0385	0.0385
	Withdrawal	0.0000	0.0031	0.0031	0.0031	0.0031	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Deliveries	0.0000	0.0385	0.0385	0.0385	0.0442	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Columbia Gas Transmission													
	Deliverability	1.5000	1.5000	1.5000	1.5050	1.5050	1.5050	1.5050	1.5050	1.5050	1.5050	1.5050	1.5050
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.5050	1.5050	1.5050
	Capacity	0.0288	0.0288	0.0288	0.0290	0.0290	0.0290	0.0290	0.0290	0.0290	0.0290	0.0290	0.0290
	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0290	0.0290	0.0290
	Injection	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153
	Withdrawal	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0000	0.0000	0.0000	0.0000	0.0000	0.0153

APPENDIX C

VECTREN ENERGY DELIVERY OF OHIO

Audit Period Purchased Gas Rates

Dth

		Nov 2007	Dec 2007	Jan 2008	Feb 2008	Mar 2008	Apr 2008	May 2008	Jun 2008	Jul 2008	Aug 2008	Sep 2008
TRANSPORTATION												
ANR Pipeline												
EFT 111879	Demand	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Commodity	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Columbia Gas Transmission												
	Demand	5.7970	5.7970	5.7970	5.8150	5.8150	5.7990	5.7990	57.9900	5.7990	5.7990	5.7990
	Released	5.7970	5.7970	5.7970	5.8150	5.8150	0.0000	0.0000	0.0000	0.0000	0.0000	(5.7990)
	Injection	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Withdrawal	0.0165	0.0146	0.0146	0.0165	0.0165	0.0174	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0193	0.0193	0.0193	0.0193	0.0193	0.0193
	Commodity	0.0000	0.0000	0.0000	0.0000	0.0000	10.3816	11.7353	12.7694	12.6209	9.3811	8.1433
Panhandle Eastern												
EFT 20349	Demand	12.8100	12.8100	12.8100	12.8100	12.8100	12.8100	12.8300	12.8300	12.8300	12.8300	12.8300
	Released	12.8100	12.8100	12.8100	12.8100	12.8100	0.0000	0.0000	0.0000	0.0000	0.0000	12.8300
	Variable	0.0420	0.0420	0.0420	0.0420	0.0420	0.0420	0.0420	0.0420	0.0420	0.0420	0.0420
	Commodity	6.6750	7.1875	7.0825	7.3548	7.4995	8.2397	9.4012	9.6500	11.0700	7.5700	5.6062
EFT 20351	Demand	1.5210	1.5718	1.5717	1.4703	1.5717	1.5210	1.5717	1.5210	1.5717	1.5717	1.5210
EFT 20348	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.5210
	Variable	0.0075	0.0075	0.0075	0.0075	0.0075	0.0075	0.0075	0.0075	0.0075	0.0075	0.0072
EFT 23514	Demand	0.0000	0.0000	4.4900	4.4900	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Trunkline												
EFT 19808	Demand	5.2530	5.4281	5.4281	5.0779	5.4281	5.2530	5.4281	5.2530	5.4281	5.4281	5.2530
EFT 19423	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	5.2530
	Variable	0.0149	0.0149	0.0149	0.0149	0.0149	0.0149	0.0149	0.0149	0.0149	0.0149	0.0149
	Commodity	7.1312	7.1557	7.5957	8.5899	9.2517	9.9606	11.2350	11.9135	13.0800	9.1500	8.3050
EFT 21594	Demand	0.0000	0.0000	8.4890	8.4890	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Texas Gas Transmission												
FT T026772	Demand	10.5000	10.8500	10.8500	10.1500	10.8500	3.9206	0.0000	0.0000	0.0000	0.0000	0.0000
FT T022329	Variable	0.0244	0.0244	0.0244	0.0244	0.0244	0.0527	0.0000	0.0000	0.0000	0.0000	0.0000
	Commodity	7.0752	7.1318	7.7923	8.4990	9.2992	9.5350	0.0000	0.0000	0.0000	0.0000	0.0000
Texas Eastern Transmission												
LLFT 870172	Demand	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400	3.3400
EFT 19423	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	3.2940
	Variable	0.0042	0.0042	0.0094	0.0042	0.0042	0.0042	0.0042	0.0042	0.0042	0.0042	0.0042
LLFT 870173	Demand	3.3400	3.3400	3.3400	3.3400	3.3400	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Variable	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
FT-1 910555R1	Demand	6.2150	6.2160	6.2160	6.2860	6.2860	6.2860	6.2860	6.2860	6.2860	6.2910	6.2910
EFT 19423	Released	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	6.2040
	Variable	0.0275	0.0155	0.0155	0.0197	0.0197	0.0197	0.0197	0.0197	0.0197	0.0209	0.0209
LOCAL PRODUCTION												
BioMass												
	Commodity	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Delivery	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
STORAGE												
Panhandle Eastern												
	Demand	3.8900	3.8900	3.8900	3.8900	3.8900	3.8900	3.9000	3.9000	3.9000	3.9000	3.9000
	Released	3.8900	3.8900	3.8900	3.8900	3.8900	0.0000	0.0000	0.0000	0.0000	0.0000	3.9000
	Deliverability	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700	2.9700
	Released	2.9700	2.9700	2.9700	2.9700	2.9700	0.0000	0.0000	0.0000	0.0000	0.0000	2.9699
	Capacity	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246	0.4246
	Released	0.4246	0.4246	0.4246	0.4246	0.4246	0.0000	0.0000	0.0000	0.0000	0.0000	0.4246
	Injection	0.0000	0.0000	0.0000	0.0000	0.0000	0.0031	0.0031	0.0031	0.0031	0.0031	0.0031
	Deliveries	0.0000	0.0000	0.0000	0.0000	0.0000	0.0385	0.0385	0.0385	0.0385	0.0385	0.0385
	Withdrawal	0.0385	0.0385	0.0385	0.0385	0.0385	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	Deliveries	0.0031	0.0031	0.0031	0.0031	0.0031	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Columbia Gas Transmission												
	Deliverability	1.5050	1.5050	1.5050	1.5070	1.5070	1.5070	1.5070	1.5070	1.5070	1.5070	1.5070
	Released	1.5050	1.5050	1.5050	1.5070	1.5070	0.0000	0.0000	0.0000	0.0000	0.0000	1.5070
	Capacity	0.0290	0.0290	0.0290	0.0290	0.0290	0.0290	0.0290	0.0290	0.0290	0.0290	0.0290
	Released	0.0290	0.0290	0.0290	0.0290	0.0290	0.0000	0.0000	0.0000	0.0000	0.0000	0.0290
	Injection	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153
	Withdrawal	0.0153	0.0153	0.0153	0.0153	0.0153	0.0153	0.0000	0.0000	0.0000	0.0000	0.0000

APPENDIX C

VECTREN ENERGY DELIVERY OF OHIO

Audit Period Purchased Gas Costs

Dth

		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
		2005	2005	2006	2006	2006	2006	2006	2006	2006	2006	2006	2006
TRANSPORTATION													
ANR Pipeline													
EFT 111879	Demand	33,839	33,839	33,839	33,839	33,839	33,839	33,839	33,839	33,839	33,839	33,839	33,839
	Variable	1,672	2,160	2,160	1,951	2,160	2,100	2,186	0	0	71	418	2,154
	Commodity	1,569,012	1,853,100	1,933,842	1,254,125	1,216,642	1,076,368	1,061,431	0	0	40,885	136,717	694,241
Columbia Gas Transmission													
	Demand	1,161,200	1,161,200	1,161,200	1,161,200	1,161,200	577,100	577,100	577,100	577,100	577,100	577,100	1,154,200
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Injection	0	0	0	0	0	0	0	0	0	0	0	0
	Withdrawal	12,314	21,177	8,862	16,908	11,219	1,078	108	0	0	0	0	3,437
	Variable	0	0	1,535	228	144	14,398	13,975	10,320	9,981	14,400	9,290	14,811
	Commodity	0	0	0	0	0	6,993,742	5,834,930	3,765,348	4,082,526	6,864,296	4,326,015	4,310,599
Panhandle Eastern													
EFT 20349	Demand	479,625	479,625	479,625	479,625	479,625	479,625	481,125	481,125	481,125	481,125	481,125	481,125
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	47,137	48,245	26,552	38,748	45,517	47,313	48,708	46,312	46,038	35,077	30,859	45,880
	Commodity	10,202,540	11,806,947	11,843,488	10,495,899	11,487,969	7,418,996	7,799,455	6,992,768	6,721,302	5,898,441	5,539,560	6,655,650
EFT 20351	Demand	8,513	86,317	86,317	86,317	86,317	86,317	16,568	16,034	16,568	16,568	16,568	16,634
EFT 20348	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	1,516	0	0	1,705	0	1,032	2,145	0	289	0	0	1,838
EFT 23514	Demand	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Trunkline													
EFT 19808	Demand	16,379	168,509	168,509	168,509	168,509	168,509	57,685	55,824	57,685	57,685	57,685	57,751
EFT 19423	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	1,580	13,976	3,994	3,293	3,024	2,069	4,263	534	544	563	565	3,808
	Commodity	2,556,872	12,573,787	4,437,676	1,864,126	1,537,734	1,018,447	1,869,622	228,967	233,280	280,459	263,429	1,569,082
EFT 21594	Demand	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Texas Gas Transmission													
FT T026772	Demand	360,000	303,209	309,848	282,201	330,064	197,635	12,660	12,252	12,660	12,660	12,660	12,660
FT T022329	Variable	34,673	68,791	63,343	53,799	41,935	19,382	3,385	3,291	3,404	3,394	3,276	3,344
	Commodity	6,331,793	14,444,397	11,804,414	9,107,875	5,633,899	2,616,691	453,007	361,922	370,947	439,570	391,786	294,526
Texas Eastern Transmission													
LLFT 870172	Demand	35,070	104,292	104,292	104,292	104,292	104,291	35,070	35,070	35,070	35,070	35,070	35,070
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	452	3,963	1,718	941	877	569	1,209	1,044	160	163	163	1,015
LLFT 870173	Demand	78,757	78,757	78,757	78,757	78,757	0	0	0	0	0	0	0
	Variable	384	735	1,270	1,043	1,270	0	0	155	0	0	0	0
FT-1 910555	Demand	26,124	26,065	26,065	25,851	25,851	25,851	25,851	25,851	25,851	25,851	25,851	25,696
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	3,146	4,414	4,415	3,577	3,824	2,413	1,120	65	1,146	1,041	1,306	1,180
LOCAL PRODUCTION													
BioMass	Commodity	408,961	304,578	348,683	202,726	155,528	178,696	256,416	266,374	205,183	232,877	207,029	193,915
	Delivery	1,703	1,583	1,729	1,331	1,185	1,345	1,916	2,414	0	0	0	0
STORAGE													
Panhandle Eastern													
	Demand	178,790	178,790	178,790	178,790	178,790	83,226	83,655	83,655	83,655	83,226	83,226	83,655
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Deliverability	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Capacity	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Injection	0	0	0	0	0	1,603	1,527	1,617	1,911	1,126	989	439
	Deliveries	0	0	0	0	0	19,600	18,678	19,772	23,368	13,772	12,090	5,372
	Withdrawal	724	2,034	1,699	2,480	2,018	0	0	0	0	0	0	0
	Deliveries	9,033	25,383	21,204	30,955	25,189	0	0	0	0	0	0	0
Columbia Gas Transmission													
	Deliverability	300,200	300,200	300,200	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Capacity	220,262	220,262	220,262	220,262	220,262	220,262	220,262	220,262	220,262	220,262	220,262	220,262
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Injection	611	287	967	562	1,125	13,414	14,763	8,401	11,103	11,183	8,813	5,489
	Withdrawal	13,832	22,996	9,954	18,992	12,602	1,211	110	0	0	0	0	3,487

APPENDIX C

VECTREN ENERGY DELIVERY OF OHIO

Audit Period Purchased Gas Costs
Dth

		Nov 2006	Dec 2006	Jan 2007	Feb 2007	Mar 2007	Apr 2007	May 2007	Jun 2007	Jul 2007	Aug 2007	Sep 2007	Oct 2007
TRANSPORTATION													
ANR Pipeline													
EFT 111879	Demand	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
	Commodity	0	0	0	0	0	0	0	0	0	0	0	0
Columbia Gas Transmission													
	Demand	1,154,200	1,154,200	1,154,200	1,162,800	1,162,800	579,700	579,700	579,700	579,700	579,700	579,700	1,159,400
	Released	0	0	0	0	0	0	0	0	0	(18,771)	(18,771)	(37,536)
	Injection	0	0	0	0	0	0	0	0	0	0	0	0
	Withdrawal	4,735	0	0	31,411	7,797	5,131	2,108	0	0	0	0	4,789
	Variable	0	22,336	29,699	9,010	2,890	16,773	26,505	19,363	18,314	19,359	20,250	8,003
	Commodity	0	0	0	4,604,102	1,310,490	7,743,975	13,262,904	10,628,885	8,225,549	7,765,821	7,440,556	3,279,014
Panhandle Eastern													
EFT 20349	Demand	481,125	481,125	481,125	481,125	481,125	481,125	481,125	480,375	480,375	480,375	480,375	480,375
	Released	0	0	0	0	0	0	0	0	0	(15,551)	(15,551)	(15,551)
	Variable	46,912	48,476	48,379	42,166	46,837	46,826	47,348	46,912	48,473	41,568	34,599	30,953
	Commodity	8,290,591	9,448,712	9,501,074	8,791,654	8,846,330	7,615,706	8,053,761	8,188,483	7,875,776	6,440,470	5,022,181	4,678,297
EFT 20351	Demand	16,097	16,634	16,634	15,024	16,634	16,097	16,097	16,097	16,634	16,634	16,097	16,536
EFT 20348	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	1,516	2,402	1,855	3,475	3,295	998	676	271	280	280	271	292
EFT 23514	Demand	9,900	31,702	32,138	9,546	9,900	0	0	0	0	0	0	0
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Trunkline													
EFT 19808	Demand	55,888	57,751	57,751	52,162	63,898	56,386	57,751	55,888	57,751	57,751	55,888	57,652
EFT 19423	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	3,102	4,915	3,794	7,105	6,617	2,034	1,320	555	574	572	554	586
	Commodity	1,563,159	2,757,136	1,709,636	3,173,768	3,535,370	1,088,676	718,797	292,822	274,179	246,924	208,316	255,142
EFT 21594	Demand	9,983	31,968	32,408	9,627	9,983	0	0	0	0	0	0	0
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Texas Gas Transmission													
FT T026772	Demand	360,000	372,270	372,000	336,000	372,000	216,000	12,660	12,252	12,660	12,660	12,252	12,660
FT T022329	Variable	0	0	0	0	0	0	3,367	3,185	1,217	157	786	814
	Commodity	6,415,811	6,942,363	5,511,621	8,521,129	4,803,788	6,187,335	470,391	463,806	159,605	17,269	81,622	99,755
Texas Eastern Transmission													
LLFT 870172	Demand	35,070	104,292	104,292	104,292	104,292	104,292	35,070	35,070	35,070	35,070	35,070	35,070
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	818	1,296	2,780	3,873	1,076	538	364	146	151	151	146	163
LLFT 870173	Demand	78,757	78,757	78,757	78,757	78,757	0	0	0	0	0	0	0
	Variable	0	0	0	0	3,248	0	0	0	0	0	0	0
FT-1 91055SR1	Demand	25,696	25,697	25,696	25,994	25,994	25,994	25,994	25,994	25,994	26,103	26,103	26,103
	Released	0	0	0	0	0	0	0	0	0	0	0	0
	Variable	2,939	2,840	2,844	2,986	3,306	1,846	1,908	924	954	1,023	989	1,033
LOCAL PRODUCTION													
BioMass	Commodity	249,870	351,483	135,904	136,034	253,665	265,687	232,511	141,426	194,672	77,339	126,450	130,367
	Delivery	0	0	0	0	0	0	0	0	0	0	0	0
STORAGE													
Panhandle Eastern													
	Demand	179,712	179,712	179,712	179,712	179,712	83,655	83,655	83,441	83,441	83,441	83,441	83,441
	Released	0	0	0	0	0	0	0	0	0	(2,704)	(2,704)	(2,704)
	Deliverability	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711
	Released	0	0	0	0	0	0	0	0	0	(4,431)	(4,431)	(4,431)
	Capacity	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729
	Released	0	0	0	0	0	0	0	0	0	(4,750)	(4,750)	(4,750)
	Injection	0	0	0	0	0	1,121	2,018	1,953	1,755	1,538	1,026	319
	Deliveries	0	0	0	0	0	13,654	24,575	23,781	21,366	18,724	12,495	3,882
	Withdrawal	0	992	2,666	3,946	1,887	0	0	0	0	0	0	0
	Deliveries	0	12,374	33,256	49,226	27,012	0	0	0	0	0	0	0
Columbia Gas Transmission													
	Deliverability	300,000	300,000	300,000	301,000	301,000	301,000	301,000	301,000	301,000	301,000	301,000	301,000
	Released	0	0	0	0	0	0	0	0	0	(9,745)	(9,745)	(9,745)
	Capacity	220,262	220,262	220,262	221,792	221,792	221,792	221,792	221,792	221,792	221,792	221,792	221,792
	Released	0	0	0	0	0	0	0	0	0	(7,180)	(7,180)	(7,180)
	Injection	5,446	643	270	214	1,180	12,369	24,589	21,274	19,752	18,725	19,489	3,164
	Withdrawal	5,509	19,786	29,828	31,871	9,837	5,486	0	0	0	0	0	5,120

APPENDIX C

VECTREN ENERGY DELIVERY OF OHIO

Audit Period Purchased Gas Costs
Dth

		Nov 2007	Dec 2007	Jan 2008	Feb 2008	Mar 2008	Apr 2008	May 2008	Jun 2008	Jul 2008	Aug 2008	Sep 2008	Audit Total
TRANSPORTATION													
ANR Pipeline													
EFT 111879	Demand	0	0	0	0	0	0	0	0	0	0	0	406,062
	Variable	0	0	0	0	0	0	0	0	0	0	0	17,031
	Commodity	0	0	0	0	0	0	0	0	0	0	0	10,836,364
Columbia Gas Transmission													
	Demand	1,159,400	1,159,400	1,159,400	1,163,000	1,163,000	579,900	579,900	579,900	579,900	579,900	579,900	30,132,200
	Released	(37,536)	(37,536)	(37,536)	(37,652)	(37,652)	0	0	0	0	0	56,384	(206,604)
	Injection	0	0	0	0	0	0	0	0	0	0	0	0
	Withdrawal	5,427	16,894	34,260	33,783	21,563	1,334	0	0	0	0	0	244,334
	Variable	0	0	0	0	0	27,209	25,167	26,441	28,188	23,546	21,301	433,436
	Commodity	0	0	0	0	0	14,958,147	15,639,826	17,878,970	18,839,091	11,696,546	9,185,044	188,636,378
Panhandle Eastern													
EFT 20349	Demand	480,375	480,375	480,375	480,375	480,375	480,375	481,125	481,125	481,125	481,125	481,125	16,822,125
	Released	(15,551)	(15,551)	(15,551)	(15,551)	(15,551)	0	0	0	0	0	(46,791)	(171,202)
	Variable	45,585	45,799	47,244	44,196	47,246	47,250	46,420	47,078	48,825	48,825	42,656	1,546,960
	Commodity	7,676,522	8,287,823	8,424,106	8,183,870	8,920,672	9,778,115	11,310,103	11,409,948	13,574,776	9,282,834	6,006,069	298,470,883
EFT 20351	Demand	16,002	16,537	16,536	15,469	16,536	16,002	16,536	16,002	16,536	16,536	16,002	912,950
EFT 20348	Released	0	0	0	0	0	0	0	0	0	0	(1,556)	(1,556)
	Variable	1,451	1,449	1,789	2,095	2,439	2,023	467	283	292	288	170	36,884
EFT 23514	Demand	0	0	22,450	22,450	0	0	0	0	0	0	0	138,087
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Trunkline													
EFT 19808	Demand	55,792	57,652	57,652	53,932	57,652	55,792	57,652	55,792	57,652	57,652	55,792	2,512,764
EFT 19423	Released	0	0	0	0	0	0	0	0	0	0	(5,426)	(5,426)
	Variable	2,916	4,877	3,593	4,209	4,900	4,062	939	568	586	577	355	97,522
	Commodity	1,424,259	2,393,906	2,063,400	2,453,498	3,109,552	2,775,727	723,388	463,912	526,313	362,660	171,374	60,725,394
EFT 21594	Demand	0	0	42,929	42,929	0	0	0	0	0	0	0	179,827
	Variable	0	0	0	0	0	0	0	0	0	0	0	0
Texas Gas Transmission													
FT T026772	Demand	420,000	434,000	434,000	406,000	434,000	33,325	0	0	0	0	0	6,123,251
FT T022329	Variable	23,492	30,257	23,027	21,798	27,429	13,439	0	0	0	0	0	450,982
	Commodity	7,008,932	9,099,235	7,566,448	7,812,077	10,755,917	2,485,488	0	0	0	0	0	136,653,420
Texas Eastern Transmission													
LLFT 870172	Demand	35,070	104,292	104,292	104,292	104,292	104,292	35,070	35,070	35,070	35,070	35,070	2,265,772
	Released	0	0	0	0	0	0	0	0	0	0	(3,363)	(3,363)
	Variable	816	808	997	1,168	1,360	1,128	261	158	163	160	99	30,893
LLFT 870173	Demand	78,757	78,757	78,757	78,757	78,757	0	0	0	0	0	0	1,181,358
	Variable	0	0	0	0	0	0	0	0	0	0	0	8,105
FT-1 910555R1	Demand	26,103	26,107	26,107	26,401	26,401	26,401	26,401	26,401	26,401	26,422	26,422	911,687
	Released	0	0	0	0	0	0	0	0	0	0	(2,531)	(2,531)
	Variable	1,191	1,974	1,974	2,320	2,460	1,478	1,187	719	742	775	477	66,533
LOCAL PRODUCTION													
BioMass													
	Commodity	0	0	0	0	0	0	0	0	0	0	0	5,256,473
	Delivery	0	0	0	0	0	0	0	0	0	0	0	13,207
STORAGE													
Panhandle Eastern													
	Demand	179,251	179,251	179,251	179,251	179,251	83,441	83,655	83,655	83,655	83,655	83,655	4,359,294
	Released	(5,726)	(5,726)	(5,726)	(5,726)	(5,726)	0	0	0	0	0	(8,135)	(44,876)
	Deliverability	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	138,711	4,854,881
	Released	(4,431)	(4,431)	(4,431)	(4,431)	(4,431)	0	0	0	0	0	(13,489)	(48,939)
	Capacity	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	148,729	5,205,511
	Released	(4,750)	(4,750)	(4,750)	(4,750)	(4,750)	0	0	0	0	0	(14,462)	(52,465)
	Injection	0	0	0	0	0	918	2,061	1,994	2,061	2,061	1,994	30,030
	Deliveries	0	0	0	0	0	11,165	25,064	24,255	25,064	25,064	24,255	365,994
	Withdrawal	1,549	33,684	42,890	39,008	26,376	0	0	0	0	0	0	161,951
	Deliveries	124	2,697	3,434	3,123	2,112	0	0	0	0	0	0	245,123
Columbia Gas Transmission													
	Deliverability	301,000	301,000	301,000	301,400	301,400	301,400	301,400	301,400	301,400	301,400	301,400	10,523,800
	Released	(9,745)	(9,745)	(9,745)	(9,758)	(9,758)	0	0	0	0	0	(29,307)	(107,292)
	Capacity	221,792	221,792	221,792	221,792	221,792	221,806	221,806	221,806	221,806	221,806	221,806	7,739,860
	Released	(7,180)	(7,180)	(7,180)	(7,180)	(7,180)	0	0	0	0	0	(21,567)	(79,010)
	Injection	2,773	675	381	244	128	18,387	15,584	20,651	21,382	18,721	15,145	317,903
	Withdrawal	5,135	18,063	36,632	31,962	20,400	1,198	0	0	0	0	0	304,013