VECTREN CORP
Form 10-K
February 19, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________________ to ________________________

Commission file number: 1-15467

VECTREN CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA	35-2086905
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One Vectren Square	47708
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 812-491-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common – Without Par	New York Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý. No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No ý

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2008, was $2,512,375,819.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock - Without Par Value	81,024,979	January 31, 2009
Class	Number of Shares	Date

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Documents Incorporated by Reference

Certain information in the Company's definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year, is incorporated by reference in Part III of this Form 10-K.

Definitions

AFUDC: allowance for funds used during construction

APB: Accounting Principles Board

EITF: Emerging Issues Task Force

FASB: Financial Accounting Standards Board

FERC: Federal Energy Regulatory Commission

IDEM: Indiana Department of Environmental Management

IURC: Indiana Utility Regulatory Commission

MCF / BCF: thousands / billions of cubic feet

MDth / MMDth: thousands / millions of dekatherms

MISO: Midwest Independent System Operator

MMBTU: millions of British thermal units

MW: megawatts

MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours)

OCC: Ohio Office of the Consumer Counselor

OUCC: Indiana Office of the Utility Consumer Counselor

PUCO: Public Utilities Commission of Ohio

SFAS: Statement of Financial Accounting Standards

USEPA: United States Environmental Protection Agency

Throughput: combined gas sales and gas transportation volumes

Access to Information

Vectren Corporation makes available all SEC filings and recent annual reports free of charge through its website at www.vectren.com as soon as reasonably practicable after electronically filing or furnishing the reports to the SEC, or by request, directed to Investor Relations at the mailing address, phone number, or email address that follows:

Mailing Address:	Phone Number:	Investor Relations Contact:
One Vectren Square	(812) 491-4000	Steven M. Schein
Evansville, Indiana 47708		Vice President, Investor Relations
		sschein@vectren.com

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PART I

ITEM 1. BUSINESS

Description of the Business

Vectren Corporation (the Company or Vectren), an Indiana corporation, is an energy holding company headquartered in Evansville, Indiana. The Company's wholly owned subsidiary, Vectren Utility Holdings, Inc. (Utility Holdings), serves as the intermediate holding company for three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren North), Southern Indiana Gas and Electric Company (SIGECO or Vectren South), and the Ohio operations (VEDO or Vectren Ohio). Utility Holdings also has other assets that provide information technology and other services to the three utilities. Utility Holdings' consolidated operations are collectively referred to as the Utility Group. Both Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005 (Energy Act). Vectren was incorporated under the laws of Indiana on June 10, 1999.

Indiana Gas provides energy delivery services to over 568,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to over 141,000 electric customers and approximately 111,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation to serve its electric customers and optimizes those assets in the wholesale power market. Indiana Gas and SIGECO generally do business as Vectren Energy Delivery of Indiana. The Ohio operations provide energy delivery services to approximately 317,000 natural gas customers located near Dayton in west central Ohio. The Ohio operations are owned as a tenancy in common by Vectren Energy Delivery of Ohio, Inc. (VEDO), a wholly owned subsidiary of Utility Holdings (53 percent ownership), and Indiana Gas (47 percent ownership). The Ohio operations generally do business as Vectren Energy Delivery of Ohio.

The Company, through Vectren Enterprises, Inc. (Enterprises), is involved in nonutility activities in three primary business areas: Energy Marketing and Services, Coal Mining and Energy Infrastructure Services. Energy Marketing and Services markets and supplies natural gas and provides energy management services. Coal Mining mines and sells coal. Energy Infrastructure Services provides underground construction and repair services and performance contracting and renewable energy services. Enterprises also has other legacy businesses that have invested in energy-related opportunities and services, real estate, and leveraged leases, among other investments. These operations are collectively referred to as the Nonutility Group. Enterprises supports the Company's regulated utilities pursuant to service contracts by providing natural gas supply services, coal, and infrastructure services.

Narrative Description of the Business

The Company segregates its operations into three groups: the Utility Group, the Nonutility Group, and Corporate and Other. At December 31, 2008, the Company had $4.6 billion in total assets, with $3.8 billion (83 percent) attributed to the Utility Group and $0.8 billion (17 percent) attributed to the Nonutility Group. Net income for the year ended December 31, 2008, was $129.0 million, or $1.65 per share of common stock, with net income of $111.1 million attributed to the Utility Group and $18.9 million attributed to the Nonutility Group, and a net loss of $1.0 million attributed to Corporate and Other. Net income for the year ended December 31, 2007, was $143.1 million, or $1.89 per share of common stock. For further information regarding the activities and assets of operating segments within these Groups, refer to Note 18 in the Company's Consolidated Financial Statements included under "Item 8 Financial Statements and Supplementary Data."

Following is a more detailed description of the Utility Group and Nonutility Group. Corporate and Other operations are not significant.

Utility Group

The Utility Group is comprised of Utility Holdings' operations. The operations of the Utility Group consist of the Company's regulated operations and other operations that provide information technology and other support services to those regulated operations. The Company segregates its regulated operations into a Gas Utility Services operating segment and an Electric Utility Services operating segment. The Gas Utility Services segment includes the operations of Indiana Gas, the Ohio operations, and SIGECO's natural gas distribution business and provides natural gas distribution and transportation services to nearly two-thirds of Indiana and to west central Ohio. The Electric Utility Services segment includes the operations of SIGECO's electric transmission and distribution services, which provides electric distribution services primarily to southwestern Indiana, and the Company's power generating and wholesale power operations. In total, these regulated operations supply natural gas and/or electricity to over one million customers. The Utility Group's other operations are not significant.

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Gas Utility Services

At December 31, 2008, the Company supplied natural gas service to approximately 996,300 Indiana and Ohio customers, including 910,000 residential, 84,700 commercial, and 1,600 industrial and other contract customers. Average gas utility customers served were approximately 986,700 in both 2008 and 2007; and 981,300 in 2006.

The Company's service area contains diversified manufacturing and agriculture-related enterprises. The principal industries served include automotive assembly, parts and accessories, feed, flour and grain processing, metal castings, aluminum products, appliance manufacturing, polycarbonate resin (Lexan®) and plastic products, gypsum products, electrical equipment, metal specialties, glass, steel finishing, pharmaceutical and nutritional products, gasoline and oil products, ethanol and coal mining. The largest Indiana communities served are Evansville, Bloomington, Terre Haute, and suburban areas surrounding Indianapolis and Indiana counties near Louisville, Kentucky. The largest community served outside of Indiana is Dayton, Ohio.

Revenues

For the year ended December 31, 2008, gas utility revenues were approximately $1,432.7 million, of which residential customers accounted for 67 percent and commercial 27 percent. Industrial and other contract customers account for the remaining 6 percent of revenues due to the high number of transportation customers in that customer class.

The Company receives gas revenues by selling gas directly to customers at approved rates or by transporting gas through its pipelines at approved rates to customers that have purchased gas directly from other producers, brokers, or marketers. Total volumes of gas delivered to both sales and transportation customers (throughput) were 206.3 MMDth for the year ended December 31, 2008. Gas sold and transported to residential and commercial customers was 114.8 MMDth representing 56 percent of throughput. Gas transported or sold to industrial and other contract customers was 91.5 MMDth representing 44 percent of throughput. Rates for transporting gas generally provide for the same margins earned by selling gas under applicable sales tariffs.

Availability of Natural Gas

The volume of gas sold is seasonal and affected by variations in weather conditions. To mitigate seasonal demand, the Company's Indiana gas utilities have storage capacity at seven active underground gas storage fields and six liquefied petroleum air-gas manufacturing plants. Periodically, purchased natural gas is injected into storage. The injected gas is then available to supplement contracted and manufactured volumes during periods of peak requirements. The volumes of gas per day that can be delivered during peak demand periods for each utility are located in "Item 2 Properties."

Natural Gas Purchasing Activity in Indiana
The Indiana utilities also contract with its affiliate, ProLiance Holdings, LLC (ProLiance), to ensure availability of gas. ProLiance is an unconsolidated, nonutility, energy marketing affiliate of Vectren and Citizens Energy Group (Citizens). (See the discussion of Energy Marketing & Services below and Note 3 in the Company's Consolidated Financial Statements included in "Item 8 Financial Statements and Supplementary Data" regarding transactions with ProLiance). The Company also prepays ProLiance for natural gas delivery services during the seven months prior to the peak heating season in lieu of maintaining gas storage. Vectren received regulatory approval on April 25, 2006 from the IURC for ProLiance to continue to provide natural gas supply services to the Company's Indiana utilities through March 2011.

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Natural Gas Purchasing Activity in Ohio

As a result of a June 2005 PUCO order, the Company established an annual bidding process for VEDO's gas supply and portfolio administration services. From November 1, 2005 through September 30, 2008, the Company used a third party provider for these services. Prior to October 31, 2005, ProLiance also supplied natural gas to Utility Holdings' Ohio operations.

On April 30, 2008, the PUCO issued an Order adopting a stipulation involving the Company, the OCC and other interveners. The order involved the first two stages of a three stage plan to exit the merchant function in the Company's Ohio service territory.

Stage one of the plan was implemented on October 1, 2008 and continues through March 31, 2010. As part of stage one, wholesale suppliers that were winning bidders in a PUCO approved auction provide the gas commodity to VEDO for resale to its customers at auction-determined standard pricing. This standard pricing is comprised of the monthly NYMEX settlement price plus a fixed adder. On October 1, 2008, the Company transferred its natural gas inventory at book value to the winning bidders, receiving proceeds of approximately $107 million, and now purchases natural gas from those suppliers, which include Vectren Source, a wholly owned subsidiary of Vectren, essentially on demand. This method of purchasing gas eliminates the need for monthly gas cost recovery (GCR) filings and prospective PUCO GCR audits.

In the second stage of this process, the Company will no longer sell natural gas directly to customers; rather state-certified Competitive Retail Natural Gas Suppliers, which are successful bidders in a second regulatory-approved auction, will sell the gas commodity to specific customers at auction-determined standard pricing, and the Company will transport that gas supply to the customers. In the third stage, which was not part of the April 2008 order, it is contemplated that all of the Company's Ohio customers will choose their commodity supplier from state-certified Competitive Retail Natural Gas Suppliers in a competitive market.

The PUCO has also provided for an Exit Transition Cost rider for the first two stages of the transition, which allows the Company to recover costs associated with the transition, and it is anticipated this rider will remain effective for the entire transition. Since the cost of gas is currently passed through to customers through a PUCO approved recovery mechanism, the impact of exiting the merchant function should not have a material impact on Company earnings or financial condition.

Total Natural Gas Purchased Volumes

In 2008, Utility Holdings purchased 109,059 MDth volumes of gas at an average cost of $9.61 per Dth, of which approximately 71 percent was purchased from ProLiance, 2 percent was purchased from Vectren Source, as discussed above, and 27 percent was purchased from third party providers. The average cost of gas per Dth purchased for the previous five years was $9.61 in 2008, $8.14 in 2007, $8.64 in 2006, $9.05 in 2005, and $6.92 in 2004.

Electric Utility Services

At December 31, 2008, the Company supplied electric service to approximately 141,300 Indiana customers, including approximately 122,800 residential, 18,400 commercial, and 100 industrial and other customers. Average electric utility customers served were approximately 141,100 in 2008; 140,800 in 2007; and 139,700 in 2006.

The principal industries served include polycarbonate resin (Lexan®) and plastic products, aluminum smelting and recycling, aluminum sheet products, automotive assembly, steel finishing, appliance manufacturing, pharmaceutical and nutritional products, automotive glass, gasoline and oil products, ethanol and coal mining.

Revenues

For the year ended December 31, 2008, retail electricity sales totaled 5,323.4 GWh, resulting in revenues of approximately $457.3 million. Residential customers accounted for 37 percent of 2008 revenues; commercial 28 percent; industrial 33 percent, and municipal and other 2 percent. In addition, in 2008 the Company sold 1,512.9 GWh through wholesale activities in 2008 principally to the MISO. Wholesale revenues, including transmission sales, totaled $66.9 million in 2008.

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System Load

Total load for each of the years 2004 through 2008 at the time of the system summer peak, and the related reserve margin, is presented below in MW.

Date of summer peak load	7/21/2008	8/08/2007	8/10/2006	7/25/2005	7/13/2004
Total load at peak (1)	1,242	1,341	1,325	1,315	1,222
Generating capability	1,295	1,295	1,351	1,351	1,351
Firm purchase supply	135	130	107	107	105
Interruptible contracts	62	62	62	76	51
Total power supply capacity	1,492	1,487	1,520	1,534	1,507
Reserve margin at peak	20%	11%	15%	17%	23%

(1) The total load at peak is increased 25 MW in 2007-2005 from the total load actually experienced. The additional 25 MW represents load that would have been incurred if the Summer Cycler program had not been activated. The 25 MW is also included in the interruptible contract portion of the Company's total power supply capacity in those years. On the date of peak in 2008 and 2004, the Summer Cycler program was not activated.

The winter peak load for the 2007-2008 season of approximately 960 MW occurred on January 25, 2008. The prior year winter peak load was approximately 961 MW, occurring on December 7, 2006.

Generating Capability

Installed generating capacity as of December 31, 2008, was rated at 1,295 MW. Coal-fired generating units provide 1,000 MW of capacity, and natural gas or oil-fired turbines used for peaking or emergency conditions provide 295 MW. Electric generation for 2008 was fueled by coal (98 percent) and natural gas (2 percent). Oil was used only for testing of gas/oil-fired peaking units. The Company generated approximately 6,653 GWh in 2008. Further information about the Company's owned generation is included in Item 2 Properties.

There are substantial coal reserves in the southern Indiana area, and coal for coal-fired generating stations has been supplied from operators of nearby coal mines, including coal mines in Indiana owned by Vectren Fuels, Inc., a wholly owned subsidiary of the Company. Approximately 3.2 million tons were purchased for generating electricity during 2008, of which approximately 91 percent was supplied by Vectren Fuels, Inc. from its mines and third party purchases. The average cost of coal paid by the utility in generating electric energy for the years 2004 through 2008 follows:

	Year Ended December 31,				
Average Delivered	2008	2007	2006	2005	2004
Cost per Ton	$ 42.50	$ 40.23	$ 37.51	$ 30.27	$ 27.06
Cost per MWh	20.84	19.78	18.44	14.94	13.06

On January 1, 2009, SIGECO began purchasing coal from Vectren Fuels, Inc. (Fuels) under new coal purchase agreements. The term of these coal purchase agreements continues to December 31, 2014, with prices specified ranging from two to four years. New pricing reflects current Illinois Basin market prices and will result in substantially higher costs in 2009, compared to prior years.

Firm Purchase Supply

The Company maintains a 1.5 percent interest in the Ohio Valley Electric Corporation (OVEC). OVEC is comprised of several electric utility companies, including SIGECO, and supplies power requirements to the United States

Department of Energy's (DOE) uranium enrichment plant near Portsmouth, Ohio. The participating companies are entitled to receive from OVEC, and are obligated to pay for, any available power in excess of the DOE contract demand. At the present time, the DOE contract demand is essentially zero. Because of this decreased demand, the Company's 1.5 percent interest in OVEC makes available approximately 30 MW of capacity for use in other operations. The Company purchased approximately 236 GWh from OVEC in 2008.

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The Company has a capacity contract with Duke Energy Marketing America, LLC. to purchase as much as 100 MW at any time from a power plant located in Vermillion County, Indiana. The contract ends on December 31, 2009. The Company purchased insignificant amounts under this contract in 2008.

The Company executed a capacity contract with Benton County Wind Farm, LLC on April 15, 2008 to purchase as much as 30 MW from a wind farm located in Benton County, Indiana. The contract expires in 2029. At the time of peak in 2008 approximately 5 MW was available. The Company purchased approximately 59 GWh under this contract in 2008.

Other Power Purchases

The Company also purchases power as needed principally from the MISO to supplement its generation and firm purchase supply in periods of peak demand. Volumes purchased principally from the MISO in 2008 totaled 80 GWh.

Midwest Independent System Operator (MISO) Capacity Purchase

In May 2008, the Company executed a MISO capacity purchase from Sempra Energy Trading, LLC to purchase 100MW of name plate capacity from its generating facility in Dearborn, Michigan. The term of the contract begins January 1, 2010 and continues through December 31, 2012.

Interconnections

The Company has interconnections with Louisville Gas and Electric Company, Duke Energy Shared Services, Inc., Indianapolis Power & Light Company, Hoosier Energy Rural Electric Cooperative, Inc., Big Rivers Electric Corporation, and the City of Jasper, Indiana, providing the historic ability to simultaneously interchange approximately 500 MW. However, the ability of the Company to effectively utilize the electric transmission grid in order to achieve its desired import/export capability has been, and may continue to be, impacted as a result of the ongoing changes in the operation of the Midwestern transmission grid. The Company, as a member of the MISO, has turned over operational control of the interchange facilities and its own transmission assets, like many other Midwestern electric utilities, to MISO. See "Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition" regarding the Company's participation in MISO.

Competition

The utility industry has undergone structural change for several years, resulting in increasing competitive pressures faced by electric and gas utility companies. Currently, several states have passed legislation allowing electricity customers to choose their electricity supplier in a competitive electricity market and several other states have considered such legislation. At the present time, Indiana has not adopted such legislation. Ohio regulation allows gas customers to choose their commodity supplier. The Company implemented a choice program for its gas customers in Ohio in January 2003. At December 31, 2008, over 80,000 customers in Vectren's Ohio service territory purchase natural gas from a supplier other than the utility. Margin earned for transporting natural gas to those customers, who have purchased natural gas from another supplier, are generally the same as those earned by selling gas under Ohio tariffs. Indiana has not adopted any regulation requiring gas choice; however, the Company operates under approved tariffs permitting certain industrial and commercial large volume customers to choose their commodity supplier.

Regulatory and Environmental Matters

See "Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition" regarding the Company's regulatory environment and environmental matters.

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Nonutility Group

The Company is involved in nonutility activities in three primary business areas: Energy Marketing and Services, Coal Mining, and Energy Infrastructure Services.

Energy Marketing and Services

The Energy Marketing and Services group relies heavily on a customer focused, value added strategy in three areas: gas marketing, energy management, and retail gas supply.

ProLiance
ProLiance Holdings, LLC (ProLiance), a nonutility energy marketing affiliate of Vectren and Citizens Energy Group (Citizens), provides services to a broad range of municipalities, utilities, industrial operations, schools, and healthcare institutions located throughout the Midwest and Southeast United States. ProLiance's customers include Vectren's Indiana utilities and nonutility gas supply operations and Citizens' utilities. ProLiance's primary businesses include gas marketing, gas portfolio optimization, and other portfolio and energy management services. Consistent with its ownership percentage, Vectren is allocated 61 percent of ProLiance's profits and losses; however, governance and voting rights remain at 50 percent for each member; and therefore, the Company accounts for its investment in ProLiance using the equity method of accounting. The Company, including its retail gas supply operations, contracted for 75 percent of its natural gas purchases through ProLiance in 2008.

For the year ended December 31, 2008, ProLiance's revenues, including sales to Vectren companies, were $2.9 billion, compared to $2.3 billion in 2007 and $2.5 billion in 2006. During the three years ended December 31, 2008, the pre-tax earnings of ProLiance have exceeded 20 percent of Vectren's pre-tax earnings in certain annual periods. In accordance with Regulation S-X, paragraph 3-09, ProLiance's audited financial statements as of and for its fiscal years ending September 30, 2008, 2007, and 2006, are included as Exhibit 99.1 to this Form 10-K.

Vectren Source
Vectren Retail, LLC (d/b/a Vectren Source) provides natural gas and other related products and services in the Midwest and Northeast United States to over 170,000 residential and commercial customers. This customer base reflects approximately 50,000 of VEDO's customers that have voluntarily opted to choose their natural gas supplier and the supply of natural gas to nearly 40,000 equivalent customers in VEDO's service territory as part of VEDO's process of exiting the merchant function, which began October 1, 2008. Further, the customer base also reflects a reduction due to exiting the Georgia market in 2008. Vectren Source generated approximately $182.6 million in revenues for 2008 compared to $168.3 million in 2007 and $162.5 million in 2006. Gas sold approximated 16,210 MDth in 2008; 13,543 MDth in 2007; and 12,228 MDth in 2006. Average customers served by Vectren Source were 157,000 in 2008; 154,000 in 2007; and 144,000 in 2006.

Coal Mining

The Coal Mining group mines and sells coal to the Company's utility operations and to other third parties through its wholly owned subsidiary, Vectren Fuels, Inc (Fuels). In 2008, the Company operated one underground mine (Prosperity) and one surface mine (Cypress Creek). Both mines are located in Indiana. All coal is high-to-mid sulfur bituminous coal from the Illinois Basin. The Company engages contract mining companies to perform substantially all mining operations.

Oaktown Mine Expansion
In April 2006, Fuels announced plans to open two new underground mines. Production is expected to begin in mid 2009, with the second mine opening late the following year. Current reserves at the two mines are estimated at 88

million tons. Once in full production, the two new mines are expected to produce 5 million tons of coal per year. Of the total $170 million expected investment, the Company has invested $68 million, inclusive of $23 million in land and buildings, $38 million in mine development and equipment, and $7 million in advanced royalty payments, through December 31, 2008.

The Oaktown mine infrastructure is located on 1,100 acres near Oaktown in Knox County, Indiana. Oaktown’s location is within 50 miles of multiple coal-fired power plants including a coal gasification plant currently under construction. It is estimated approximately 25,000 acres of coal will be mined during the life of the mine. Access to the mine is planned via a 90 foot deep box cut and a 2,200 foot slope on a 14 degree grade, reaching coal in excess of 375 feet below the surface.

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Oaktown is a room and pillar underground mine meaning that main airways and transportation entries are developed and maintained while remote-controlled continuous miners extract coal from so-called rooms by removing coal from the seam, leaving pillars to support the roof. Shuttle cars or similar transportation is used to transport coal to a conveyor belt for transport to the surface. There are two mines separated by a sandstone channel. The seam thickness ranges from 4 feet to over 9 feet. The mine's wash plant is sized to process 800 tons per hour initially with a planned expansion to 1,600 tons per hour. The mine will also be connected to a railway and equipped to handle 110 to 120 car unit trains.

Prosperity Mine

Prosperity is an underground mine located on 1,100 surface acres outside of Petersburg in Pike County, Indiana. Prosperity is also a room and pillar mine where coal removal is accomplished with continuous mining machines. The mine entrance slopes gradually for 500 ft on a 9 degree grade and is more than 250 feet below ground level. The coal seam varies in thickness from 4-1/2 to 8 feet. The mine has a wash plant sized to process 1,000 tons/hour. The mine is connected to a railway and can handle 110-120 car unit trains. Coal is also transported via truck to its customers, which include Vectren's power supply operations and other third party utilities. The mine opened in 2001, and the total plant and development costs to date are $152 million. Through December 31, 2008, approximately 4,000 acres of coal have been mined with approximately 6,000 acres remaining. Reserves at December 31, 2008 approximate 32 million tons, not including possible nearby expansion opportunities. The remaining unamortized plant balance as of December 31, 2008 approximates $75 million, inclusive of $15 million of land and buildings and $61 million of mine development and equipment. Reserves, absent expansion, are expected to be completely accessed by 2019.

Cypress Creek

Cypress Creek is an above-ground, or surface mine, located on 155 acres about 4 miles north of Boonville in Warrick County, Indiana. Cypress Creek is a combination truck/shovel, dozer push and high wall mining operation, meaning large shovels or front-end loaders remove earth and rock covering a coal seam and loading equipment place the coal into trucks for transportation to a blending and loading area. Cypress Creek's coal, is sold as a raw product after sizing and blending with coal. Because of the cost of extensive digging, the coal mining limit is 125 to 135 feet deep. All coal mined from Cypress Creek is transported via truck to Vectren's power supply operations. The mine opened in 1998 and the total plant and development costs were $29 million. As of December 31, 2008, remaining reserves approximate 500,000 tons, all of which is expected to be accessed in 2009. The remaining unamortized plant balance as of December 31, 2008 approximates $11 million, inclusive of $1 million of land and buildings and $10 million in mine development and equipment.

Following is summarized data regarding coal mining operations:

	Cypress Creek	Prosperity	Oaktown Mine 1	Oaktown Mine 2	Totals
Type of Mining	Surface	Underground	Underground	Underground	
Mining Technology	Truck & Shovel	Room & Pillar	Room & Pillar	Room & Pillar	
Tons Mined (in thousands)					
2008	1,150	2,378	-	-	3,528
2007	1,433	2,632	-	-	4,065
2006	1,212	2,790	-	-	4,002
County Located in Indiana	Warrick	Pike	Knox	Knox	

Coal Reserves (thousands of tons)	500	32,000	50,000	38,000	120,500
Average Heat Content (BTU/lb.)	10,500	11,300	11,100	11,300	
Average Sulfur Content (lbs./ton)	8.0	4.0	5.6	4.8	

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Energy Infrastructure Services

Energy Infrastructure Services provides underground construction and repair to utility infrastructure through Miller Pipeline Corporation (Miller) and energy performance contracting and renewable energy services through Energy Systems Group, LLC (ESG). Miller's customers include Vectren's utilities.

Miller Pipeline
Effective July 1, 2006, the Company purchased the remaining 50 percent of Miller a subsidiary of Duke Energy Corporation, making Miller a wholly owned subsidiary. The results of Miller's operations, formerly accounted for using the equity method, have been included in consolidated results since July 1, 2006. Prior to this transaction, Miller was 100 percent owned by Reliant Services, LLC (Reliant). Reliant provided facilities locating and meter reading services to the Company's utilities, as well as other utilities. Reliant exited the meter reading and facilities locating businesses in 2006.

Energy Systems Group
Performance-based energy contracting operations and renewable energy services are performed through Energy Systems Group, LLC (ESG). ESG assists schools, hospitals, governmental facilities, and other private institutions to reduce energy and maintenance costs by upgrading their facilities with energy-efficient equipment. ESG is also involved in creating renewable energy projects, including projects to process landfill gas into usable natural gas. ESG's customer base is located throughout the Midwest and Southeast United States.

Other Businesses

The Other Businesses group includes a variety of legacy, wholly owned operations and investments that have invested in energy-related opportunities and services, real estate, and leveraged leases, among other investments. Major investments at December 31, 2008, include Haddington Energy Partnerships, two partnerships both approximately 40 percent owned; and wholly owned subsidiaries, Southern Indiana Properties, Inc. and Energy Realty, Inc.

The Company had an approximate 2 percent equity interest and a convertible subordinated debt investment in Utilicom Networks, LLC (Utilicom). The Company also had an approximate 19 percent equity interest in SIGECOM Holdings, Inc. (Holdings), which was formed by Utilicom to hold interests in SIGECOM, LLC (SIGECOM). SIGECOM provided broadband services, such as cable television, high-speed internet, and advanced local and long distance phone services, to the greater Evansville, Indiana area. The Company sold its investment in SIGECOM during 2006. See "Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition" regarding the Company's Other Businesses for additional information related to transactions involving Utilicom.

Synthetic Fuel

The Company has an 8.3 percent ownership interest in Pace Carbon Synfuels, LP (Pace Carbon). Pace Carbon produced and sold coal-based synthetic fuel using Covol technology, and according to US tax law, its members received a tax credit for every ton of coal-based synthetic fuel sold. In addition, Vectren Fuels, Inc., a wholly owned subsidiary involved in coal mining, received processing fees from synfuel producers unrelated to Pace Carbon for a portion of its coal production. Under current tax laws, these synfuel related credits and fees ended on December 31, 2007. Partnership operations since that date have been insignificant. See "Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition" regarding the Company's Synfuel-Related activities for additional information related to Pace Carbon and Vectren Fuels.

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Personnel

As of December 31, 2008, the Company and its consolidated subsidiaries had 3,700 employees, of which 1,600 are employees of Miller and 2,200 are subject to collective bargaining arrangements.

Utility Holdings

In December 2008, the Company reached a three-year labor agreement, ending December 1, 2011 with Local 1393 of the International Brotherhood of Electrical Workers and United Steelworkers of America Locals 12213 and 7441.

In July 2007, the Company reached a three-year labor agreement with Local 702 of the International Brotherhood of Electrical Workers, ending June 2010.

In November 2005, the Company reached a four-year agreement with Local 175 of the Utility Workers Union of America, ending October 2009. In September 2005, the Company reached a four-year agreement with Local 135 of the Teamsters, Chauffeurs, Warehousemen, and Helpers Union, ending September 2009.

Miller Pipeline