

VECTREN UTILITY HOLDINGS INC
Form 10-K
March 04, 2011

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

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: 1-16739

VECTREN UTILITY HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

INDIANA
(State or other jurisdiction of incorporation or
organization)

35-2104850
(IRS Employer Identification No.)

One Vectren Square
(Address of principal executive offices)

47708
(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
Vectren Utility 6.10% SR NTS

Name of each exchange on which registered
New York Stock Exchange

12/1/2035

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

Title of each class Common – Without Par	Name of each exchange on which registered None
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

*Yes No

*Utility Holdings is a majority owned subsidiary of a well-known seasoned issuer, and well-known seasoned issuer status depends in part on the type of security being registered by the majority-owned subsidiary.

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

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, 2010, was zero. All shares outstanding of the Registrant's common stock were held by Vectren Corporation.

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 Class	Number of Shares	Date
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10

Number of Shares

February 28, 2011

Date

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Omission of Information by Certain Wholly Owned Subsidiaries

The Registrant is a wholly owned subsidiary of Vectren Corporation and meets the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and is therefore filing with the reduced disclosure format contemplated thereby.

Definitions

AFUDC: allowance for funds used during construction	MDth / MMDth: thousands / millions of dekatherms
ASC: Accounting Standards Codification	MISO: Midwest Independent System Operator
BTU / MMBTU: British thermal units / millions of BTU	MW: megawatts
FASB: Financial Accounting Standards Board	MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours)
FERC: Federal Energy Regulatory Commission	NERC: North American Electric Reliability Corporation
IDEM: Indiana Department of Environmental Management	OCC: Ohio Office of the Consumer Counselor
IRC: Internal Revenue Code	OUCC: Indiana Office of the Utility Consumer Counselor
IURC: Indiana Utility Regulatory Commission	PUCO: Public Utilities Commission of Ohio
Kv: Kilovolt	EPA: Environmental Protection Agency
MCF / BCF: thousands / billions of cubic feet	Throughput: combined gas sales and gas transportation volumes

Access to Information

Vectren Corporation makes available all SEC filings and recent annual reports, including those of Vectren Utility Holdings, Inc., 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	Investor Relations Contact:
One Vectren Square	Number:	Robert L. Goocher
Evansville, Indiana 47708	(812)	Treasurer and Vice President, Investor
	491-4000	Relations
		rgoocher@vectren.com

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(A) – Omitted or amended as the Registrant is a wholly owned subsidiary of Vectren Corporation and meets the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and is therefore filing with the reduced disclosure format contemplated thereby.

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PART I

ITEM 1. BUSINESS

Description of the Business

Vectren Utility Holdings, Inc. (the Company or Utility Holdings), an Indiana corporation, was formed on March 31, 2000 to serve as the intermediate holding company for Vectren Corporation's (Vectren) 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. Vectren, an Indiana corporation, is an energy holding company headquartered in Evansville, Indiana and was organized on June 10, 1999. Both Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005 (Energy Act).

Indiana Gas provides energy delivery services to over 570,000— natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to approximately 142,000 electric customers and approximately 111,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation assets 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 314,000 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.

Narrative Description of the Business

The Company has 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.

At December 31, 2010, the Company had \$3.9 billion in total assets, with \$2.1 billion (55 percent) attributed to Gas Utility Services, \$1.7 billion (43 percent) attributed to Electric Utility Services, and \$0.1 billion (2 percent) attributed to Other Operations. Net income for the year ended December 31, 2010, was \$123.9 million, with \$53.7 million attributed to Gas Utility Services, \$60.9 million attributed to Electric Utility Services, and \$9.3 million attributed to Other Operations. Net income for the year ended December 31, 2009, was \$107.4 million. For further information regarding the activities and assets of operating segments, refer to Note 13 in the Company's consolidated financial statements included under "Item 8 Financial Statements and Supplementary Data."

Following is a more detailed description of the Gas Utility Services and Electric Utility Services operating segments. The Company's Other Operations are not significant.

Gas Utility Services

At December 31, 2010, the Company supplied natural gas service to approximately 994,800 Indiana and Ohio customers, including 909,300 residential, 83,800 commercial, and 1,700 industrial and other contract customers. Average gas utility customers served were approximately 982,100 in 2010, 981,300 in 2009, and 986,700 in 2008.

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, 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, suburban areas surrounding Indianapolis and Indiana counties near Louisville, Kentucky. The largest community served outside of Indiana is Dayton, Ohio.

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Revenues

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 throughput was 197.0 MMDth for the year ended December 31, 2010. Gas sold and transported to residential and commercial customers was 106.2 MMDth representing 54 percent of throughput. Gas transported or sold to industrial and other contract customers was 90.8 MMDth representing 46 percent of throughput. Rates for transporting gas generally provide for the same margins earned by selling gas under applicable sales tariffs.

For the year ended December 31, 2010, gas utility revenues were approximately \$954.1 million, of which residential customers accounted for 68 percent and commercial 25 percent. Industrial and other contract customers account for only 7 percent of revenues due to the high number of transportation customers in that customer class.

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 a wholly-owned subsidiary of 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 below and Note 5 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. On November 3, 2010, a settlement agreement was filed with the IURC providing for ProLiance's continued provision of gas supply services to the Company's Indiana utilities and Citizens Gas for the period of April 1, 2011 through March 31, 2016. The settlement has been agreed to by all of the representatives that were parties to the prior settlement. An order is anticipated during the first quarter of 2011.

Natural Gas Purchasing Activity in Ohio

On April 30, 2008, the PUCO issued an order adopting a stipulation involving the Company, the OCC, and other interveners. The order approved the first two phases of a three phase plan to exit the merchant function in the Company's Ohio service territory. The Company used a third party provider for VEDO's gas supply and portfolio services through September 30, 2008.

The initial phase of the plan was implemented on October 1, 2008 and continued through March 31, 2010. During the initial phase, wholesale suppliers that were winning bidders in a PUCO approved auction provided the gas commodity to VEDO for resale to its residential and general service customers at auction-determined standard pricing. This standard pricing was 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 began purchasing natural gas from those suppliers (one of which was Vectren Source, a wholly owned natural gas retail marketing subsidiary of Vectren). This method of purchasing gas eliminated the need for monthly gas cost recovery (GCR) filings and prospective PUCO GCR audits.

The second phase of the exit process began on April 1, 2010. During this phase, the Company no longer sells natural gas directly to customers. Rather, state-certified Competitive Retail Natural Gas Suppliers, that were successful bidders in a similar regulatory-approved auction, sell the gas commodity to specific customers for a 12-month period at auction-determined standard pricing. The first auction was conducted on January 12, 2010, and the auction results were approved by the PUCO on January 13, 2010. The plan approved by the PUCO required that the Company conduct at least two annual auctions during this phase. As such, the Company conducted another auction on January 18, 2011 in advance of the second 12-month term which commences on April 1, 2011. The results of that auction were approved by the PUCO on January 19, 2011. Consistent with current practice, customers will continue to receive a single bill for the commodity as well as the delivery component of natural gas service from VEDO. Vectren Source, Vectren's wholly owned nonutility retail gas marketer, was a successful bidder in both auctions.

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In the last phase, which was not approved in the April 2008 order, it is contemplated that all of the Company's Ohio residential and general service customers will choose their commodity supplier from state-certified Competitive Retail Natural Gas Suppliers in a competitive market.

The PUCO provided for an Exit Transition Cost rider, which allows the Company to recover costs associated with the transition process. Exiting the merchant function should not have a material impact on earnings or financial condition. It, however, has and will continue to reduce Gas Utility revenues and have an equal and offsetting impact to Cost of gas sold as VEDO no longer purchases gas for resale to these customers.

Total Natural Gas Purchased Volumes

In 2010, Utility Holdings purchased 84,008 MDth volumes of gas at an average cost of \$5.99 per Dth, of which approximately 86 percent was purchased from ProLiance, 2 percent was purchased from Vectren Source, and 12 percent was purchased from third party providers. The average cost of gas per Dth purchased for the previous four years was \$5.97 in 2009, \$9.61 in 2008, \$8.14 in 2007, and \$8.64 in 2006.

Electric Utility Services

At December 31, 2010, the Company supplied electric service to approximately 141,600 Indiana customers, including approximately 123,200 residential, 18,300 commercial, and 100 industrial and other customers. Average electric utility customers served were approximately 141,300 in 2010, 140,900 in 2009, and 141,100 in 2008.

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

Revenues

For the year ended December 31, 2010, retail electricity sales totaled 5,616.9 GWh, resulting in revenues of approximately \$564.3 million. Residential customers accounted for 37 percent of 2010 revenues; commercial 27 percent; industrial 35 percent, and other 1 percent. In addition, in 2010 the Company sold 587.6 GWh through wholesale activities principally to the MISO. Wholesale revenues, including transmission-related revenue, totaled \$43.7 million in 2010.

System Load

Total load for each of the years 2006 through 2010 at the time of the system summer peak, and the related reserve margin, is presented below in MW.

Date of summer peak load	8/4/2010	6/22/2009	7/21/2008	8/8/2007	8/10/2006
Total load at peak (1)	1,275	1,143	1,167	1,341	1,325
Generating capability	1,298	1,295	1,295	1,295	1,351
Firm purchase supply	136	136	135	130	107
Interruptible contracts & direct load control	62	62	62	62	62
Total power supply capacity	1,496	1,493	1,492	1,487	1,520
Reserve margin at peak	17	% 31	% 28	% 11	% 15

(1) The total load at peak is increased 25 MW in 2007 and 2006 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 2008-2010 the Summer Cycler program was not activated.

The winter peak load for the 2009-2010 season of approximately 916 MW occurred on January 8, 2010. The prior year winter peak load was approximately 883 MW, occurring on January 15, 2009.

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Generating Capability

Installed generating capacity as of December 31, 2010, was rated at 1,298 MW. Coal-fired generating units provide 1,000 MW of capacity, natural gas or oil-fired turbines used for peaking or emergency conditions provide 295 MW, and in 2009 SIGECO purchased a landfill gas electric generation project which provides 3 MW. Electric generation for 2010 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 5,136 GWh in 2010. 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. (Vectren Fuels), a wholly owned subsidiary of Vectren. Approximately 2.2 million tons were purchased for generating electricity during 2010, of which approximately 90 percent was supplied by Vectren Fuels from its mines and third party purchases. This compares to 2.8 million tons and 3.2 million tons purchased in 2009 and 2008, respectively. The utility's coal inventory was approximately 1 million tons at December 31, 2010 and 2009.

The average cost of coal per ton consumed for the last five years was \$67.01 in 2010, \$61.67 in 2009, \$42.50 in 2008, \$40.23 in 2007, and \$37.51 in 2006. Effective January 1, 2009, SIGECO began purchasing coal from Vectren Fuels under new coal purchase agreements. The term of these coal purchase agreements continues to December 31, 2014, with prices specified originally ranging from two to four years. The prices in these contracts were at or below market prices for Illinois Basin coal at the time of execution and were subject to a bidding process with third parties. The IURC has found that costs incurred u