

VECTREN UTILITY HOLDINGS INC
Form 10-K
March 02, 2009

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, 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: 1-16739

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
12/1/2035

Name of each exchange on which registered
New York Stock Exchange

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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 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, 2008, 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	10	January 31, 2009
Class	Number of Shares	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	MMBTU: millions of British thermal units
APB: Accounting Principles Board	MW: megawatts
EITF: Emerging Issues Task Force	MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours)
FASB: Financial Accounting Standards Board	OCC: Ohio Office of the Consumer Counselor
FERC: Federal Energy Regulatory Commission	OUCC: Indiana Office of the Utility Consumer Counselor
IDEM: Indiana Department of Environmental Management	PUCO: Public Utilities Commission of Ohio
IURC: Indiana Utility Regulatory Commission	SFAS: Statement of Financial Accounting Standards
MCF / BCF: thousands / billions of cubic feet	USEPA: United States Environmental Protection Agency
MDth / MMDth: thousands / millions of dekatherms	Throughput: combined gas sales and gas transportation volumes
MISO: Midwest Independent System Operator	

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 Number:	Investor Relations Contact:
One Vectren Square Evansville, Indiana 47708	(812) 491-4000	Steven M. Schein Vice President, Investor Relations

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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 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.

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. The Utility Group's other operations are not significant.

At December 31, 2008, the Company had \$3.8 billion in total assets, with \$2.2 billion (57 percent) attributed to Gas Utility Services, \$1.4 billion (38 percent) attributed to Electric Utility Services, and \$0.2 billion (5 percent) attributed to Other Operations. Net income for the year ended December 31, 2008, was \$111.1 million, with \$53.3 million attributed to the Gas Utility Services, \$50.7 million attributed to Electric Utility Services, and \$7.1 million attributed to Other Operations. Net income for the year ended December 31, 2007, was \$106.5 million. For further information regarding the activities and assets of operating segments, refer to Note 11 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, 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.

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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. The Company 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.

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.

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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.

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				