VECTREN CORP
Form 10-Q
November 09, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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: 1-15467

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, Evansville, IN 47708
(Address of principal executive offices)
(Zip Code)

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

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. x Yes o 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).
x Yes o No

-1-

Table of Contents

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

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

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

Class	Number of Shares	Date
Common Stock- Without Par Value	81,653,437	October 31, 2010

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 Evansville, Indiana 47708	(812) 491-4000	Robert L. Goocher Treasurer and Vice President, Investor Relations rgoocher@vectren.com

Definitions

BTU: British thermal units	MSHA: Mine Safety and Health Administration
FASB: Financial Accounting Standards Board	MW: megawatts
FERC: Federal Energy Regulatory Commission	MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours)
IDEM: Indiana Department of Environmental Management	OUCC: Indiana Office of the Utility Consumer Counselor
IURC: Indiana Utility Regulatory Commission	PUCO: Public Utilities Commission of Ohio
BCF: billions of cubic feet	USEPA: United States Environmental Protection Agency

MISO: Midwest Independent System Operator	Throughput: combined gas sales and gas transportation volumes

-2-

Table of Contents

Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited – In millions)

	September 30, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash & cash equivalents	$7.2	$11.9
Accounts receivable - less reserves of $4.2 & $5.2, respectively	132.5	162.4
Accrued unbilled revenues	54.7	144.7
Inventories	188.3	167.8
Recoverable fuel & natural gas costs	12.5	-
Prepayments & other current assets	111.0	95.1
Total current assets	506.2	581.9
Utility Plant		
Original cost	4,737.4	4,601.4
Less: accumulated depreciation & amortization	1,808.7	1,722.6
Net utility plant	2,928.7	2,878.8
Investments in unconsolidated affiliates	124.9	186.2
Other utility & corporate investments	32.5	33.2
Other nonutility investments	40.9	46.2
Nonutility plant - net	485.5	482.6
Goodwill - net	242.0	242.0
Regulatory assets	185.7	187.9
Other assets	33.7	33.0
TOTAL ASSETS	$4,580.1	$4,671.8

The accompanying notes are an integral part of these consolidated condensed financial statements.

Table of Contents

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited – In millions)

	September 30, 2010	December 31, 2009
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$132.9	$183.8
Accounts payable to affiliated companies	23.5	54.1
Refundable fuel & natural gas costs	-	22.3
Accrued liabilities	183.5	174.7
Short-term borrowings	157.3	213.5
Current maturities of long-term debt	48.2	48.0
Long-term debt subject to tender	-	51.3
Total current liabilities	545.4	747.7
Long-term Debt - Net of Current Maturities & Debt Subject to Tender	1,590.3	1,540.5
Deferred Income Taxes & Other Liabilities		
Deferred income taxes	495.0	458.7
Regulatory liabilities	331.6	322.1
Deferred credits & other liabilities	207.0	205.6
Total deferred credits & other liabilities	1,033.6	986.4
Commitments & Contingencies (Notes 11-13)		
Common Shareholders' Equity		
Common stock (no par value) – issued & outstanding 81.4 & 81.1, respectively	675.1	666.8
Retained earnings	742.7	737.2
Accumulated other comprehensive income (loss)	(7.0)	(6.8)
Total common shareholders' equity	1,410.8	1,397.2
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$4,580.1	$4,671.8

The accompanying notes are an integral part of these consolidated condensed financial statements.

Table of Contents

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited – In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
OPERATING REVENUES				
Gas utility	$101.8	$93.4	$692.8	$759.9
Electric utility	173.2	143.0	469.1	400.7
Nonutility	147.7	113.2	403.5	359.7
Total operating revenues	422.7	349.6	1,565.4	1,520.3
OPERATING EXPENSES				
Cost of gas sold	32.4	28.0	371.7	440.6
Cost of fuel & purchased power	64.5	50.1	180.3	147.4
Cost of nonutility revenues	60.7	36.2	170.6	153.7
Other operating	137.2	129.6	398.4	377.6
Depreciation & amortization	57.6	53.9	170.6	158.3
Taxes other than income taxes	11.7	11.3	46.9	48.0
Total operating expenses	364.1	309.1	1,338.5	1,325.6
OPERATING INCOME	58.6	40.5	226.9	194.7
OTHER INCOME (EXPENSE)				
Equity in earnings (losses) of unconsolidated affiliates	(8.2)	(0.6)	(13.9)	(11.3)
Other income – net	1.6	4.1	2.0	10.6
Total other income (expense)	(6.6)	3.5	(11.9)	(0.7)
INTEREST EXPENSE	26.0	25.8	78.0	74.0
INCOME BEFORE INCOME TAXES	26.0	18.2	137.0	120.0
INCOME TAXES	9.6	5.8	48.7	41.5
NET INCOME	$16.4	$12.4	$88.3	$78.5
AVERAGE COMMON SHARES OUTSTANDING	81.2	80.8	81.1	80.7
DILUTED COMMON SHARES OUTSTANDING	81.4	81.1	81.3	81.0
EARNINGS PER SHARE OF COMMON STOCK:				
BASIC	$0.20	$0.15	$1.09	$0.97
DILUTED	$0.20	$0.15	$1.09	$0.97
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$0.340	$0.335	$1.020	$1.005

The accompanying notes are an integral part of these consolidated condensed financial statements.

-6-

Table of Contents

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited – In millions)

	Nine Months Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$88.3	$78.5
Adjustments to reconcile net income to cash from operating activities:		
Depreciation & amortization	170.6	158.3
Deferred income taxes & investment tax credits	33.9	55.2
Equity in losses of unconsolidated affiliates	13.9	11.3
Provision for uncollectible accounts	13.2	15.3
Expense portion of pension & postretirement benefit cost	6.7	7.8
Other non-cash charges - net	19.4	(1.0)
Changes in working capital accounts:		
Accounts receivable & accrued unbilled revenues	106.7	234.0
Inventories	(20.5)	(32.0)
Recoverable/refundable fuel & natural gas costs	(34.8)	33.1
Prepayments & other current assets	(16.4)	30.6
Accounts payable, including to affiliated companies	(82.9)	(169.9)
Accrued liabilities	15.7	(17.4)
Unconsolidated affiliate dividends	42.7	11.3
Employer contributions to pension & postretirement plans	(12.4)	(27.3)
Changes in noncurrent assets	(9.8)	(6.9)
Changes in noncurrent liabilities	(11.9)	(11.3)
Net cash flows from operating activities	322.4	369.6
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Dividend reinvestment plan & other common stock issuances	7.2	4.5
Long-term debt, net of issuance costs	-	311.6
Requirements for:		
Dividends on common stock	(82.7)	(81.2)
Retirement of long-term debt	(2.1)	(2.7)
Net change in short-term borrowings	(56.2)	(358.1)
Net cash flows from financing activities	(133.8)	(125.9)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Unconsolidated affiliate distributions	0.5	-
Other collections	10.2	1.2
Requirements for:		
Capital expenditures, excluding AFUDC equity	(200.9)	(321.8)
Unconsolidated affiliate investments	(0.2)	(0.2)
Other investments	(2.9)	(0.8)
Net cash flows from investing activities	(193.3)	(321.6)
Net change in cash & cash equivalents	(4.7)	(77.9)
Cash & cash equivalents at beginning of period	11.9	93.2
Cash & cash equivalents at end of period	$7.2	$15.3

The accompanying notes are an integral part of these consolidated condensed financial statements.

Table of Contents

VECTREN CORPORATION AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Nature of Operations

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 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. 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 560,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to over 141,000 electric customers and approximately 110,000 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 310,000 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.

2. Basis of Presentation

The interim consolidated condensed financial statements included in this report have been prepared by the Company, without audit, as provided in the rules and regulations of the Securities and Exchange Commission and include a review of subsequent events through the date the financial statements were issued. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted as provided in such rules and regulations. The information in this report reflects all adjustments which are, in the opinion of management, necessary to fairly state the interim periods presented, inclusive of adjustments that are normal and recurring in nature. These consolidated condensed financial statements and related notes should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2009, filed with the Securities and Exchange Commission on February 26, 2010, on Form 10-K. Because of the seasonal nature of the Company's utility operations, the results shown on a quarterly basis are not necessarily indicative of annual results.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Table of Contents

3. Comprehensive Income

Comprehensive income consists of the following:

(In millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income	$ 16.4	$ 12.4	$ 88.3	$ 78.5
Comprehensive income (loss) of unconsolidated affiliates	(6.3)	3.6	(4.4)	16.9
Cash flow hedges				
Unrealized gains	4.1	-	4.3	0.1
Reclassifications to net income	-	-	-	(0.1)
Income taxes	0.9	(1.5)	(0.1)	(6.8)
Total comprehensive income	$ 15.1	$ 14.5	$ 88.1	$ 88.6

Accumulated other comprehensive income arising from unconsolidated affiliates is primarily the Company's portion of ProLiance Holdings, LLC's accumulated comprehensive income related to use of cash flow hedges. (See Note 8 for more information on ProLiance.)

4. Earnings Per Share

The Company uses the two class method to calculate earnings per share (EPS). The two class method is an earnings allocation formula that treats a participating security as having rights to earnings that otherwise would have been available to common shareholders. Under the two-class method, earnings for a period are allocated between common shareholders and participating security holders based on their respective rights to receive dividends as if all undistributed book earnings for the period were distributed. Basic EPS is computed by dividing net income attributable to only the common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the impact of stock options and other equity based instruments to the extent the effect is dilutive. The following table illustrates the basic and dilutive EPS calculations for the periods presented in these financial statements.

(In millions, except per share data)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Numerator:				
Numerator for basic EPS	$16.4	$12.4	$88.3	$78.4
Add back earnings attributable to participating securities	-	-	-	0.1
Reported net income (Numerator for Diluted EPS)	$16.4	$12.4	$88.3	$78.5
Denominator:				
Weighted average common shares outstanding (Basic EPS)	81.2	80.8	81.1	80.7
Conversion of share based compensation arrangements	0.2	0.3	0.2	0.3
Adjusted weighted average shares outstanding and assumed conversions outstanding (Diluted EPS)	81.4	81.1	81.3	81.0
Basic EPS	$0.20	$0.15	$1.09	$0.97

Diluted EPS	$0.20	$0.15	$1.09	$0.97

Table of Contents

For the three months and nine months ended September 30, 2010, options to purchase 308,000 and 517,800, respectively, of additional shares of the Company's common stock were outstanding, but were not included in the computation of diluted EPS because their effect would be antidilutive, compared to 517,800 and 837,100 shares for the three and nine months ended September 30, 2009, respectively. The exercise prices for these options ranged from $24.90 to $27.15 for the three months ended September 30, 2010 and $24.74 to $27.15 for the nine months ended September 30, 2010. The exercise prices for these options ranged from $24.74 to $27.15 for the three months ended September 30, 2009 and $23.19 to $27.15 for the nine months ended September 30, 2009.

5. Retirement Plans & Other Postretirement Benefits

The Company maintains three qualified defined benefit pension plans, a nonqualified supplemental executive retirement plan (SERP), and three other postretirement benefit plans. The defined benefit pension and other postretirement benefit plans, which cover eligible full-time regular employees, are primarily noncontributory. The postretirement health care and life insurance plans are a combination of self-insured and fully insured plans. The Company has a Voluntary Employee Beneficiary Association (VEBA) Trust Agreement for the partial funding of postretirement health benefits for retirees and their eligible dependents and beneficiaries in one of the three plans. Annual VEBA funding is discretionary. The qualified pension plans and the SERP are aggregated under the heading "Pension Benefits." Other postretirement benefit plans are aggregated under the heading "Other Benefits."

Net Periodic Benefit Costs
A summary of the components of net periodic benefit cost follows:

	Three Months Ended September 30,			
	Pension Benefits		Other Benefits	
(In millions)	2010	2009	2010	2009
Service cost	$1.5	$1.5	$0.2	$0.2
Interest cost	4.0	4.0	1.1	1.1
Expected return on plan assets	(4.6)	(4.1)	-	(0.1)
Amortization of prior service cost	0.4	0.4	(0.2)	(0.2)
Amortization of transitional obligation	-	-	0.3	0.3
Amortization of actuarial loss	0.5	0.6	-	0.1
Net periodic benefit cost	$1.8	$2.4	$1.4	$1.4

	Nine Months Ended September 30,			
	Pension Benefits		Other Benefits	
(In millions)	2010	2009	2010	2009
Service cost	$4.7	$4.7	$0.4	$0.4
Interest cost	11.9	11.9	3.4	3.3
Expected return on plan assets	(13.8)	(12.3)	(0.2)	(0.3)
Amortization of prior service cost	1.2	1.2	(0.6)	(0.6)
Amortization of transitional obligation	-	-	0.9	0.9
Amortization of actuarial loss	1.5	1.7	0.3	0.3
Net periodic benefit cost	$5.5	$7.2	$4.2	$4.0

Employer Contributions to Qualified Pension Plans
Currently, the Company expects to contribute approximately $12 million to its pension plan trusts for 2010. Through September 30, 2010, contributions of $8.8 million have been made.

-10-

Table of Contents

Impact of Recent Healthcare Legislation

In March 2010, the President signed into law comprehensive health care reform legislation under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. Included among the major provisions of the law is a change in the federal income tax treatment of a subsidy received by the Company to offset the cost of providing Medicare equivalent retiree prescription drug benefits, commonly referred to as the Medicare Part D subsidy. Prior to the change in law, the deduction for retiree drug benefits excluded the government subsidy, effectively making the subsidy tax free. Due to the change in tax treatment, the Company recorded a $2.3 million increase in its deferred tax liabilities, during the first quarter of 2010, related to the estimated $6.1 million accrued subsidy receivable at that date. Like tax law changes in the past, it is expected that the impact of this change will be reflected in customer rates in the future. As a result, the Company has recorded a $4.8 million regulatory asset related to this matter in its financial statements at September 30, 2010.

6. Excise and Utility Receipts Taxes

Excise taxes and a portion of utility receipts taxes are included in rates charged to customers. Accordingly, the Company records these taxes received as a component of operating revenues, which totaled $4.8 million and $4.3 million in the three months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010 and 2009, these taxes totaled $25.2 million and $26.0 million, respectively. Expenses associated with excise and utility receipts taxes are recorded as a component of Taxes other than income taxes.

7. Supplemental Cash Flow Information

As of September 30, 2010 and December 31, 2009, the Company has accruals related to utility and nonutility plant purchases totaling approximately $10.2 million and $12.4 million, respectively.

8. ProLiance Holdings, LLC

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 as well as 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.

Summarized Financial Information

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2010	2009	2010	2009
Summarized statement of income information:				
Revenues	$ 289.3	$ 257.2	$ 1,095.1	$ 1,216.2
Operating income (loss)	$ (12.8)	$ (1.1)	$ (12.2)	$ 12.8
Charge related to Investment in Liberty Gas Storage	$ -	$ -	$ -	$ (32.7)
ProLiance's earnings (loss)	$ (12.9)	$ (0.8)	$ (12.3)	$ (18.3)

Table of Contents

(In millions)	As of September 30, 2010	As of December 31, 2009
Summarized balance sheet information:		
Current assets	$ 336.5	$ 477.6
Noncurrent assets	$ 59.6	$ 61.7
Current liabilities	$ 209.5	$ 264.5
Noncurrent liabilities	$ 5.3	$ 4.0
Members' equity	$ 200.1	$ 282.4
Accumulated other comprehensive income (loss)	$ (18.8)	$ (11.6)

Vectren records its 61 percent share of ProLiance's earnings after income taxes, interest expense and cost allocations. During the third quarter of 2010, ProLiance declared a special dividend of $50 million to its members. The Company received its share of a special dividend paid to ProLiance's members totaling approximately $30 million in July 2010.

Investment in Liberty Gas Storage

Liberty Gas Storage, LLC (Liberty), a joint venture between a subsidiary of ProLiance and a subsidiary of Sempra Energy (SE), is a development project for salt-cavern natural gas storage facilities. ProLiance is the minority member with a 25 percent interest, which it accounts for using the equity method. The project was expected to include 17 Bcf of capacity in its north facility, and an additional 17 Bcf of capacity in its south facility. In the second quarter of 2009, the joint venture, with SE as the majority member, determined the north facility was impaired due to well completion problems. As a result, the Company recorded its share of that impairment totaling approximately $11.9 million after tax. ProLiance's investment in Liberty is $37.0 million at September 30, 2010.

Transactions with ProLiance

Purchases from ProLiance for resale and for injections into storage for the three months ended September 30, 2010 and 2009, totaled $78.0 and $92.1 million, respectively, and for the nine months ended September 30, 2010 and 2009, totaled $319.2 and $394.4 million. Amounts owed to ProLiance at September 30, 2010 and December 31, 2009 for those purchases were $23.5 million and $54.1 million, respectively, and are included in