

Edgar Filing: VECTREN CORP - Form 10-K405

VECTREN CORP
 Form 10-K405
 March 30, 2001

SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
 Form 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
 OF THE SECURITIES EXCHANGE ACT OF 1934
 For the fiscal year ended December 31, 2000

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	Registrant, State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-15467	Vectren Corporation (An Indiana Corporation) 20 N. W. Fourth Street Evansville, Indiana 47741-0001 (812) 465-5300	35-2086905

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

Registrant	Title of each class	Name of each exchange on which registered
Vectren Corporation	Common- Without Par Value	New York Stock Exchange

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

None

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) have been subject to such filing requirements for the past 90 days: Yes X No

As of March 21, 2001, the aggregate market value of the Common Stock held by nonaffiliates was \$1,476,131,802.

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

Edgar Filing: VECTREN CORP - Form 10-K405

Common Stock- Without Par Value	67,712,468	March 21, 2001
Class	Number of shares	Date

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. X.

Documents Incorporated by Reference

Certain information in the company's definitive Proxy Statement for the 2001 Annual Meeting of Stockholders, which was filed with the Securities and Exchange Commission on March 16, 2001, is incorporated by reference in Part III of this Form 10-K.

Information in the company's Current Report on Form 8-K which was filed with the Securities and Exchange Commission on March 29, 2001, regarding gas cost adjustment proceedings is incorporated by reference in Part II of this Form 10-K

Table of Contents

Item Number		Page Number
Part I		
1	Business	1
2	Properties	11
3	Legal Proceedings	12
4	Submission of Matters to Vote of Security Holders	12
Part II		
5	Market for Registrant's Common Equity and Related Security Holder Matters	12
6	Selected Financial Data	13
7	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
7A	Qualitative and Quantitative Disclosures of Market Risk	31
8	Financial Statements and Supplementary Data	34
9	Change in and Disagreements with Accountants on Accounting and Financial Disclosure	67
Part III		
10	Directors and Executive Officers of the Registrants	67
11	Executive Compensation	68
12	Security Ownership of Certain Beneficial	

Edgar Filing: VECTREN CORP - Form 10-K405

	Owners and Management	68
13	Certain Relationships and Related Transactions	68
	Part IV	
14	Exhibits, Financial Statement Schedules and Reports on Form 8-K	69
	Subsidiaries of the Registrant	70
	Signatures	72

1

PART I

ITEM 1. BUSINESS

Overview

Vectren Corporation (Vectren) is an Indiana corporation that was organized on June 10, 1999, solely for the purpose of effecting the merger of Indiana Energy, Inc. (Indiana Energy) and SIGCORP, Inc. (SIGCORP). On March 31, 2000, the merger of Indiana Energy with SIGCORP and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling of interests. The common shareholders of SIGCORP received one and one-third shares of Vectren common stock for each SIGCORP common share and the common shareholders of Indiana Energy received one share of Vectren common stock for each Indiana Energy common share, resulting in the issuance of 61.3 million shares of Vectren common stock. The preferred stock and debt securities of Indiana Energy's and SIGCORP's utility subsidiaries were not affected by the merger.

Vectren is a public utility holding company, whose wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), is the intermediate holding company for Vectren's three operating public utilities, Indiana Gas Company, Inc. (Indiana Gas), formerly a wholly owned subsidiary of Indiana Energy, Southern Indiana Gas and Electric Company (SIGECO), formerly a wholly owned subsidiary of SIGCORP, and the Ohio operations (defined hereafter). VUHI's regulated subsidiaries serve approximately one million customers. Indiana Gas and its subsidiaries provide natural gas and transportation services to a diversified base of customers in 311 communities in 49 of Indiana's 92 counties. SIGECO provides generation, transmission, distribution and the sale of electric power to Evansville, Indiana, and 74 other communities, and the distribution and sale of natural gas to Evansville, Indiana, and 64 communities in ten counties in southwestern Indiana. Vectren's Ohio operations provide natural gas distribution and transportation services to Dayton, Ohio and 16 counties in west central Ohio.

Vectren is involved in non-regulated activities through three primary business groups: Energy Services, Utility Services, and Communications. Energy Services trades and markets natural gas and provides energy performance contracting services. Utility Services provides utility products and services, such as underground construction and facilities locating, meter reading and materials management, and the mining and sale of coal. Communications provides integrated broadband communications

Edgar Filing: VECTREN CORP - Form 10-K405

services, including local and long distance telephone, Internet access and cable television. In addition, other businesses invest in other energy-related opportunities and corporate technology.

Acquisition of Gas Distribution Assets of the Dayton Power and Light Company

On December 15, 1999, Indiana Energy, now Vectren, announced that the board of directors had approved a definitive agreement under which it would acquire the natural gas distribution assets of The Dayton Power and Light Company (DP&L), which would add 310,000 gas distribution customers in 16 counties in west central Ohio. On October 31, 2000, Vectren completed the approximate \$465 million acquisition. Vectren acquired the natural gas distribution assets as a tenancy in common through two wholly owned subsidiaries. Vectren Energy Delivery of Ohio, Inc. (VEDO) holds a 53 percent undivided ownership interest in the assets and Indiana Gas holds a 47 percent undivided ownership interest in the assets. VEDO is the operator of the assets, operations of which are herein referred to as "the Ohio operations." VUHI established a \$435 million commercial paper program to fund the majority of the acquisition. This facility

2

was utilized at October 31, 2000, and will be replaced over time with permanent financing. VEDO's portion of the acquisition was funded with short-term borrowings from VUHI. Indiana Gas' portion of the acquisition was funded with a combination of short-term borrowings from VUHI and Indiana Gas' commercial paper program.

Common Stock Offering

On January 19, 2001, Vectren filed a registration statement with the Securities and Exchange Commission with respect to a public offering of 5.5 million shares of new common stock. On February 8, 2001, the registration became effective and agreement was reached to sell 5.5 million shares to a group of underwriters. On February 14, the shares were sold, at which time the underwriters exercised their over-allotment option to sell an additional 825,000 shares for a total of about 6.3 million shares. The net proceeds of \$129.4 million will be used principally to repay outstanding commercial paper utilized for recent acquisitions.

Narrative Description of the Business

Vectren segregates its businesses into regulated and non-regulated entities. At December 31, 2000, Vectren had \$2.9 billion in total assets, with \$2.4 billion (83%) being regulated and \$0.5 billion (17%) being non-regulated. Net Income for fiscal year 2000 was \$72.0 million, or \$1.18 per share of common stock. Excluding merger and integration related charges of \$52.5 million, including \$11.4 million of additional depreciation expense, net income for fiscal year 2000 was \$108.8 million, with \$4.0 million being regulated and \$24.8 million being non-regulated, or \$1.78 per share of common stock. Excluding merger and integration related charges, the results reflect a 20% increase over 1999 net income of \$90.7 million, or \$1.48 per

Edgar Filing: VECTREN CORP - Form 10-K405

share of common stock.

Further information regarding the segments' activities and assets is included in Note 20 of Vectren's consolidated financial statements included under Item 8 Financial Statements and Supplementary Data. For further information on merger and integration charges, refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Regulated Business Segment

Overview

Regulated operations consist of the company's utility operations that are subject to rate regulation by the respective state commissions of Indiana and Ohio as well as certain Federal regulation. During 2000, Vectren's utility operations had two operating segments: (1) Gas Utility Services and (2) Electric Utility Services. The Gas Utility Services segment distributes, transports and sells natural gas in central and southern Indiana and west central Ohio and is comprised of the operations of Indiana Gas, the Ohio operations and SIGECO's natural gas business. The Electric Utility Services segment generates, transmits, distributes and sells electricity within primarily southwestern Indiana and in periods of under utilized capacity, sells excess electricity to wholesale customers. This segment is comprised of SIGECO's electric business.

Effective January 1, 2001, the utility operations were realigned into two primary business units, Energy Delivery and Power Supply.

3

Gas Utility Services

Overview

Gas Utility Services supplied natural gas service to approximately 636,000 Indiana customers during 2000. This represents customer base growth of approximately 2 percent over the previous year.

The Indiana 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; and coal mining.

The largest communities served include Evansville, Muncie, Anderson, Lafayette-West Lafayette, Bloomington, Terre Haute, Marion, New Albany, Columbus, Jeffersonville, New Castle and Richmond.

Effective November 1, 2000, VEDO began operating the Ohio operations. The Ohio operations sells natural gas to residential, commercial, industrial and governmental customers in west central Ohio, including Dayton, and provides natural gas to approximately 310,000 customers.

Edgar Filing: VECTREN CORP - Form 10-K405

For the year ended December 31, 2000, Gas Utility Services served approximately 946,000 customers, including approximately 862,000 residential, 80,000 commercial, and 4,000 contract.

Revenues

For the year ended December 31, 2000 Gas Utility Services' revenues were approximately \$818.8 million of which residential customers provided 59 percent, commercial 21 percent, contract 10 percent and other 10 percent, respectively.

Gas Utility Services receives gas revenues by selling gas directly to residential and commercial customers at approved rates or by transporting gas through its pipelines at approved rates to contract customers that have purchased gas directly from other producers, brokers or marketers. Total volume of gas provided to both sales and transportation customers (throughput) was 181,238 MDth for the year ended December 31, 2000. Transported gas represented 44 percent of total throughput. Rates for transporting gas provide for the same margins generally earned by selling gas under applicable sales tariffs.

The sale of gas is seasonal and strongly affected by variations in weather conditions. To mitigate seasonal demand, Vectren owns and operates eight underground gas storage fields, six liquefied petroleum air-gas manufacturing plants and maintains contract storage. Natural gas purchased from suppliers is injected into storage during periods of light demand which are typically periods of lower prices. The injected gas is then available to supplement contracted volumes during periods of peak requirements. Approximately 690,000 Dth of gas per day can be withdrawn from storage during peak demand periods.

4

Gas Purchases

In 2000, Vectren purchased gas from multiple suppliers including ProLiance Energy, LLC (ProLiance). ProLiance is a 50 percent owned non-regulated energy marketing affiliate. (See Notes 6 and 19 in Vectren's consolidated financial statements included in Item 8 Financial Statements and Supplementary Data regarding transactions with ProLiance). Including the Ohio operations for two months, Vectren purchased 91,908 MDth volumes of gas in 2000 at an average cost of \$6.01 per MDth, of which 85 percent was purchased from ProLiance.

Regulatory Matters

Gas operations with regard to rates and charges, terms of service, accounting matters, issuance of securities, and certain other operational matters specific to its Indiana customers are regulated by the Indiana Utility Regulatory Commission (IURC), and the Ohio operations are subject to regulation by the Public Utilities Commission of Ohio (PUCO).

Adjustments to rates and charges related to the cost of gas charged to Indiana customers are made through gas cost adjustment (GCA) procedures established by Indiana law and administered by

Edgar Filing: VECTREN CORP - Form 10-K405

the IURC. GCA procedures involve scheduled quarterly filings and IURC hearings to establish the amount of price adjustments for a designated future quarter. The procedures also provide for inclusion in later quarters of any variances between estimated and actual costs of gas sold in a given quarter. This reconciliation process with regard to changes in the cost of gas sold closely matches revenues to expenses. The IURC has also applied the statute authorizing the GCA procedures to reduce rates when necessary so as to limit net operating income to the level authorized in its last general rate order. An earnings test operates in conjunction with GCA procedures. Recovery of gas costs is not allowed to the extent that total operating income for a 60-month period, including the twelve-month period provided in the gas cost adjustment filing, exceeds the total operating income authorized by the IURC. For the period 1998 through 2000, the earnings test has not affected the company's ability to recover gas costs, and the company does not anticipate the earnings test will restrict the recovery of gas costs in the near future. (See Rate and Regulatory Matters in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations regarding a \$3.8 million disallowance of gas costs.)

Adjustments to rates and charges related to the cost of gas charged to Ohio customers are made through gas cost recovery (GCR) procedures established by Ohio law and administered by the PUCO. GCR procedures involve scheduled quarterly filings to establish the amount of price adjustments for a designated future quarter. The procedures also provide for inclusion in later quarters of any variances between estimated and actual costs of gas sold in a given quarter. This reconciliation process with regard to changes in the cost of gas sold closely matches revenues to expenses.

Rate structures for SIGECO, Indiana Gas and the Ohio operations do not include a weather normalization-type clause whereby the utilities would be authorized to recover the gross margin on sales established in their last general rate case, regardless of actual weather patterns.

Environmental Matters

See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations regarding manufactured gas plants.

5

Electric Utility Services

Overview

Electric Utility Services supplied electric service to 132,340 Indiana customers (114,946 residential, 17,207 commercial, 187 industrial) during 2000. This represents customer base growth of approximately 5 percent over the previous year. SIGECO is obligated to provide for firm power commitments to the City of Jasper, Indiana and to maintain spinning reserve margin requirements under an agreement with the East Central Area Reliability Group (ECAR).

The principal industries served by Electric Utility Services include polycarbonate resin (Lexan) and plastic products,

Edgar Filing: VECTREN CORP - Form 10-K405

aluminum smelting and recycling, aluminum sheet products, automotive assembly, steel finishing, appliance manufacturing, pharmaceutical and nutritional products, automotive glass, gasoline and oil products and coal mining.

Revenues

For the year ended December 31, 2000, electricity sales totaled 7,524,700 megawatt hours, resulting in revenues of approximately \$336.4 million. Residential customers provided 27.6 percent of 2000 revenues; industrial 24.6 percent; commercial 21.9 percent; other wholesale 16.4 percent; municipals and cities 7.0 percent; and other 2.5 percent.

Generating Capacity

Installed generating capacity as of December 31, 2000 was rated at 1,256 megawatts (MW). Coal-fired generating units provide 1,041 MW of capacity and gas or oil-fired turbines used for peaking or emergency conditions provide 215 MW.

In addition to its generating capacity, Electric Utility Services has 50 MW available under firm contracts and 120 MW available under interruptible contracts. New peaking capacity of 80 MW is under development and will be available for the summer peaking season in 2002. This new generating capacity will be fueled by natural gas.

Electric Utility Services has interconnections with Louisville Gas and Electric Company, Cinergy Services, Inc., Indianapolis Power & Light Company, Hoosier Energy Rural Electric Cooperative, Inc., Big Rivers Electric Corporation, Wabash Valley Power Association, and the City of Jasper, providing the ability to simultaneously interchange approximately 750 MW.

Total load, including its firm power commitments to the City of Jasper, Indiana, for each of the years 1996 through 2000 at the time of the system summer peak, and the related reserve margin, is presented below in MW.

Date of Summer Peak Load	8-21-96	7-14-97	7-21-98	7-6-99	8-17-00
	-----	-----	-----	-----	-----
Total Load at Peak	1,053	1,086	1,140	1,230	1,212
Generating Capability	1,236	1,236	1,256	1,256	1,256
Firm Purchase Supply	-	-	-	-	50
Interruptible Contracts	-	-	-	95	120
	-----	-----	-----	-----	-----
Total Power Supply Capacity	1,236	1,236	1,256	1,351	1,426
Reserve Margin at Peak	15%	12%	9%	9%	15%

6

The winter peak load of the 1999-2000 season of approximately 873 MW occurred on January 25, 2000 and was 4.6% higher than the

Edgar Filing: VECTREN CORP - Form 10-K405

previous winter peak load of approximately 834 MW which occurred on January 5, 1999.

Through March 2001 and since 1956, SIGECO, primarily as agent of ALCOA Generating Corporation (AGC), operated the Warrick Generating Station, a coal-fired steam electric plant which interconnects with SIGECO's system and provides power for the ALCOA, INC.'s (ALCOA) Warrick Operations, which includes aluminum smelting and fabricating facilities. Of the four turbine generators at the plant, Warrick Units 1, 2 and 3, with a capacity of 144 MW each, are owned by AGC. Warrick Unit 4, with a rated capacity of 270 MW, is owned by SIGECO and AGC as tenants in common, each having shared equally in the cost of construction and sharing equally in the cost of operation and in the output. On August 21, 2000, SIGECO announced that no later than April 18, 2001, ALCOA would begin operating the Warrick Generating Station. The operating change will have no impact on generating capacity and is not expected to have any negative impact on Electric Utility Services financial results. Additionally, ALCOA will be retained as a wholesale power and transmission services customer. Transition of the plant operations was completed in March 2001.

Electric Utility Services maintains a 1.5 percent interest in the Ohio Valley Electric Corporation (OVEC). The OVEC is comprised of 15 electric utility companies, including SIGECO, that 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. The proceeds from the sale of power by OVEC are designed to be sufficient to meet all of its costs and to provide for a return on its common stock. The DOE is currently decreasing production at the Portsmouth plant, and as a result, Electric Utility Services' 1.5 percent interest in the OVEC makes available approximately 23 MW of capacity, in addition to its generating capacity, for use in other Electric Utility Services operations.

Fuel Costs

Electric generation for 2000 was fueled by coal (99.0 percent) and natural gas (1.0 percent). Oil was used only for testing of gas/oil-fired peaking units.

There are substantial coal reserves in the southern Indiana area, and coal for coal-fired generating stations has been supplied from operators of nearby Indiana strip mines including those owned by Vectren Fuels, Inc., a wholly owned subsidiary of Vectren. Approximately 2.6 million tons of coal were purchased for generating electricity during 2000. Of this tonnage, Vectren Fuels, Inc. supplied 47 percent.

The average cost of all coal consumed in generating electrical energy decreased substantially subsequent to 1996. This decrease results from the buy out of long-term contracts, enabling the purchase of lower-priced spot market coal and the purchase of lower priced coal from Vectren Fuels, Inc. The average cost of all coal consumed in generating electrical energy for the years 1996 through 2000 was as follows:

Edgar Filing: VECTREN CORP - Form 10-K405

Year	Average Cost Per Ton	Average Cost Per MMBTU	Average Cost Per Kwh (In Mills)
-----	-----	-----	-----
1996	26.01	1.16	12.40
1997	20.75	0.91	9.80
1998	21.34	0.94	9.97
1999	21.88	0.96	10.13
2000	22.49	0.98	10.39

Research and Development

Electric Utility Services participates with seven other utilities and 31 other affiliated groups located in eight states comprising the east central area of the United States, in the East Central Area Reliability group, the purpose of which is to strengthen the area's electric power supply reliability. Additionally, SIGECO is one of a number of transmission owners who are members of the Midwest Independent System Operator (MISO) which is a regional transmission organization established to ensure the dependable and efficient transmission of electric energy among transmission utilities located in the midwestern United States. The MISO expects to be in commercial operation no later than December 15, 2001.

Regulatory Matters

Changes in prices for electricity are determined primarily by market prices for fuel for electric generation and purchased power. Operations with regards to rates and charges, terms of service, accounting matters, issuance of securities, and certain other operational matters are regulated by the IURC.

Adjustments to rates and charges related to the cost of fuel and the net energy cost of purchased power charged to Indiana customers are made through fuel cost adjustment procedures established by Indiana law and administered by the IURC. Fuel cost adjustment procedures involve scheduled quarterly filings and IURC hearings to establish the amount of price adjustments for future quarters. The procedures also provide for inclusion in a later quarter of any variances between estimated and actual costs of fuel and purchased power in a given quarter. The order provides that any over- or underrecovery caused by variances between estimated and actual cost in a given quarter will be included in the second succeeding quarter's adjustment factor. This continuous reconciliation of estimated incremental fuel costs billed with actual incremental fuel costs incurred closely matches revenues to expenses. An earnings test is the principal restriction to recovery of fuel cost increases. Such recovery is not allowed to the extent that total operating income for any 60-month period including the twelve-month period provided in the fuel cost adjustment filing exceeds the total operating income authorized by the IURC during the same 60-month period. For the period 1998 through 2000, the earnings test has not affected the company's ability to recover fuel costs, and the company does not anticipate the earnings test will restrict the recovery of fuel costs in the near future. (See Management's Discussion and Analysis of Financial Condition and Results of Operations regarding negotiations with the IURC and the Indiana Office of Utility Consumer Counselor (OUCC) on purchased power costs).

Environmental Matters

Vectren is subject to federal, state and local regulations with respect to environmental matters, principally air, solid waste and water quality. Pursuant to environmental regulations, the company is required to obtain operating permits for the electric generating plants that it owns or operates and construction permits for any new plants it might propose to build. Regulations concerning air quality establish standards with respect to both ambient air quality and emissions from electric generating facilities, including particulate matter, sulfur dioxide (SO₂) and nitrogen oxides (NO_x). Regulations concerning water quality establish standards relating to intake and discharge of water from electric generating facilities, including water used for cooling purposes in electric generating facilities. Because of the scope and complexity of these regulations, the company is unable to predict the ultimate effect of such regulations on its future operations, nor is it possible to predict what other regulations may be adopted in the future. The company intends to comply with all applicable governmental regulations, but will contest any regulation it deems to be unreasonable or impossible.

Refer to Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion of the company's Clean Air Act Compliance Plan, the USEPA's lawsuit against SIGECO for alleged violations of the Clean Air Act and the planned associated costs.

Competition

The utility industry has been undergoing dramatic structural change for several years, resulting in increasing competitive pressures faced by electric and gas utility companies. Increased competition may create greater risks to the stability of utility earnings and may in the future reduce earnings from retail electric and gas sales. Currently, several states, including Ohio, have passed legislation that allows electricity customers to choose their electricity supplier in a competitive electricity market, and several other states are considering such legislation. At the present time, Indiana has not adopted such legislation. Ohio regulation provides for choice of commodity for all gas customers. Vectren plans to implement this choice for all of its gas customers in Ohio by 2002. Indiana has not adopted any regulation requiring gas choice except for large volume customers.

Non-Regulated Business Segment

Overview

Vectren is involved in non-regulated activities through three primary business groups: Energy Services, Utility Services, and Communications.

Energy Services

Edgar Filing: VECTREN CORP - Form 10-K405

The Energy Services group relies heavily upon a customer focused, value added strategy. The group provides gas marketing and fuel supply management to over 600 customers in twelve states across the Midwest, as well as market intelligence through disciplined trading. In addition to being a leading provider of these services to municipal utilities, Energy Services serves large end users and other utilities. This group is also a significant gas supplier to Vectren's Gas Utility Services segment. At December 31, 2000, Energy Services had 624 customers, up from 377 in 1998. Volume increased approximately 34 percent through customer growth as volumes traded increased to 327 MMdth in 2000, up from 244 MMdth in 1998.

9

Energy Services includes two gas marketing companies. ProLiance is 50 percent owned by Vectren and 50 percent owned by an affiliate of Citizens Gas and Coke Utility. SIGCORP Energy Services, Inc. is a wholly owned subsidiary of Vectren. In addition, Energy Systems Group, LLC provides energy performance contracting and facility upgrades through its design and installation of energy-efficient equipment. Energy Systems Group, LLC is a venture between Vectren and Citizens Gas, with Vectren owning 67 percent.

Utility Services

The Utility Services group is a low cost provider of outsourcing services for electric, gas, water and telecommunication utilities, including Vectren 's utility businesses. Those outsourced services include underground construction and facilities locating, meter reading, warehousing and distribution of materials and third party collections. In addition, the group provides Vectren 's Electric Utility Services with a dependable, low cost source of coal from Vectren Fuel, Inc.'s, a wholly owned subsidiary, mines in southwest Indiana. It also markets coal to other utilities and wholesale customers.

This group includes the following entities: Reliant Services, LLC (Reliant), an equally owned strategic alliance with Cinergy Corp.; CIGMA, LLC, an equally owned strategic alliance with an affiliate of Citizens Gas; IEI Financial Services, LLC, a wholly owned subsidiary of Vectren; and Vectren Fuels, Inc. Refer to Other Operating Matters in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations regarding Reliant's acquisition of Miller Pipeline Corporation.

Communications

The Communications group provides telecommunications services to approximately 21,800 residential and commercial customers (an increase of over 150 percent from 1999) in the greater Evansville area in southern Indiana through an 880-mile fiber network. This network has been active since mid-2000. The present customer base has yielded approximately 57,600 revenue generating units, indicating multiple lines and/or services being utilized by the same customer. Penetration of the existing energy customer base in Evansville with communications services has been in excess of one-third. The Evansville system is operated in a joint venture with Utilicom. Utilicom is a provider of bundled communications services that focuses on last mile delivery to residential and commercial customers in second and third tier markets.

Edgar Filing: VECTREN CORP - Form 10-K405

Communications group's strategy is to be the first mover to connect customers in the second and third tier markets in Indiana and west central Ohio. Vectren intends to execute this strategy by investing in broadband cable overbuilds and by optimizing the existing relationships between other business groups and their customers.

In addition to the operating Evansville network, the company has invested \$8.1 million in Utilicom and has also committed to invest up to \$100 million in Utilicom in the form of convertible subordinated debt, subject to Utilicom obtaining all required financing. Vectren's commitment will support Utilicom's plan to raise \$600 million of additional capital to fund ventures in Indianapolis, Indiana and Dayton, Ohio. Utilicom has also obtained a total of \$220 million of capital commitments from Blackstone Capital Partners III, First Union Capital Partners, and JP Morgan Capital. These commitments are also subject to the achievement of the funding of the entire \$600 million of additional capital. Refer to Other Operating Matters in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information on Vectren's investment in Utilicom.

10

Other Businesses

In addition to the non-regulated business groups previously discussed, the Other Businesses group invests in and realizes tax credits from investments in:

- * a portfolio of energy development projects in gas storage, gathering and processing, and fuel cells and other distributed generation projects;
- * real estate, including structured finance and leveraged leases, as well as low income housing projects;
- * projects to develop coal based synthetic fuels; and
- * corporate information technology, including billing and financial reporting systems.

Major investments include Haddington Energy Partners, L.P. ('Haddington Energy '), Southern Indiana Properties, Inc., Pace Carbon Synfuels Investors, L.P., Energy Realty, Inc. and Vectren Resources LLC.

Personnel

As of December 31, 2000, Vectren and its subsidiaries had 2,029 employees.

Concurrent with Vectren's purchase of the Ohio operations, Vectren and Local Union 175, Utility Workers Union of America agreed on a new labor agreement effective November 1, 2000, continuing in effect until October 31, 2005. The agreement provides a 3.25 percent wage increase each year, and the other terms and conditions are substantially the same as the agreement reached between the Utility Workers Union and Dayton Power and Light Company in August of 2000.

On July 31, 2000, SIGECO signed a new four-year labor agreement with Local 702 of the International Brotherhood of Electrical

Edgar Filing: VECTREN CORP - Form 10-K405

Workers. The new agreement provides a 3 percent wage increase for each year in addition to improvements in health care coverage, retirement benefits and incentive pay.

On October 4, 1999, SIGECO signed a new two-year labor contract, ending September 23, 2001, with Local 135 of the Teamsters, Chauffeurs, Warehousemen and Helpers. The contract provides for annual wage increases of 3 percent and improvements in health care coverage costs and pension and other benefits.

The labor agreement between Indiana Gas, Local Union 1393 of the International Brotherhood of Electrical Workers and Local Unions 7441 and 12213, United Steelworkers of America, went into effect November 27, 1998 for a five year term expiring on December 1, 2003. The agreement contains a 4 percent wage increase in 1998 and 3 percent wage increases each year thereafter during the term of the agreement, in addition to increased performance incentives, a new sick pay provision and a simplified pension benefit formula.

11

ITEM 2. PROPERTIES

Gas Utility Services

Specific to its Indiana operations, Indiana Gas owns and operates five gas storage fields located in Indiana covering 71,484 acres of land with an estimated ready delivery from storage capability of 8.0 million Dth of gas with daily delivery capabilities of 134,160 Dth. For its Indiana operations, Indiana Gas also maintains 186,578 Dth of gas in contract storage with a daily deliverability of 3,563 Dth and three liquefied petroleum (propane) air-gas manufacturing plants with a total daily capacity of 31,000 Dth of gas. Indiana Gas' gas delivery system includes 11,336 miles of distribution and transmission mains.

SIGECO owns and operates three underground gas storage fields with an estimated ready delivery from storage capability of 3.9 million Dth of gas with daily delivery capabilities of 119,000 Dth. SIGECO's gas delivery system includes 2,921 miles of distribution and transmission mains.

The gas delivery system specific to the Ohio operations includes 5,132 miles of distribution and transmission mains, three propane air-gas manufacturing plants with a total daily capacity of 52,187 Dth, and approximately 13.9 million Dth of firm storage service from various pipelines with daily deliverability of 354,788 Dth of gas.

Electric Utility Services

SIGECO's installed generating capacity as of December 31, 2000 was rated at 1,256 MW. SIGECO's coal-fired generating facilities are: the Brown Station with 500 MW of capacity, located in Posey County approximately eight miles east of Mt. Vernon, Indiana; the Culley Station with 406 MW of capacity, and Warrick Unit 4 with 135 MW of capacity. Both the Culley and Warrick Stations are located in Warrick County near Yankeetown, Indiana. SIGECO's gas-fired turbine peaking units are: the 80 MW Brown Gas Turbine located at the Brown Station; two Broadway Gas Turbines located

Edgar Filing: VECTREN CORP - Form 10-K405

in Evansville, Indiana, with a combined capacity of 115 MW; and two Northeast Gas Turbines located northeast of Evansville in Vanderburgh County, Indiana with a combined capacity of 20 MW. The Brown and Broadway turbines are also equipped to burn oil. Total capacity of SIGECO's five gas turbines is 215 MW, and they are generally used only for reserve, peaking or emergency purposes due to the higher per unit cost of generation.

SIGECO's transmission system consists of 826 circuit miles of 138,000 and 69,000 volt lines. The transmission system also includes 27 substations with an installed capacity of 4,014,190 kilovolt amperes (Kva). The electric distribution system includes 3,196 pole miles of lower voltage overhead lines and 245 trench miles of conduit containing 1,423 miles of underground distribution cable. The distribution system also includes 94 distribution substations with an installed capacity of 1,803,878 Kva and 49,832 distribution transformers with an installed capacity of 2,255,483 Kva.

Non-regulated Services

Subsidiaries other than the utility operations have no significant properties other than the ownership and operation of coal mining property in Indiana and investments in real estate partnerships, leveraged leases and notes receivable.

Property Serving as Collateral

SIGECO's properties are subject to the lien of the First Mortgage Indenture dated as of April 1, 1932 between SIGECO and Bankers Trust Company, New York, as Trustee, as supplemented by various supplemental indentures.

12

ITEM 3. LEGAL PROCEEDINGS

Vectren and its subsidiaries are involved in various legal proceedings arising in the normal course of business. In the opinion of management, with the exception of the matters described in Notes 6 and 17 of its consolidated financial statements included in Item 8 Financial Statements and Supplementary Data regarding transactions with ProLiance and the Clean Air Act, there are no legal proceedings pending against Vectren that could be material to its financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter to a vote of security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Vectren Corporation's shares of common stock are traded on the New York Stock Exchange under the symbol 'VVC.' The high and low sales prices for Vectren's common stock as reported on the New York Stock Exchange composite transactions reporting system and dividends paid are shown in the following table for the periods

Edgar Filing: VECTREN CORP - Form 10-K405

indicated.

Fiscal Year 2000	Cash	Price Range	
	Dividend	High	Low
First Quarter	N/A	N/A	N/A
Second Quarter	\$ 0.2425	\$ 21.3125	\$ 15.7500
Third Quarter	0.2425	20.3750	17.5625
Fourth Quarter	0.2550	26.5000	20.0000

On January 24, 2001, the board of directors declared a dividend of \$0.255 per share, payable on March 1, 2001, to common shareholders of record on February 15, 2001.

As of March 23, 2001, there were 14,835 shareholders of record of Vectren's common stock.

Dividends on shares of common stock are payable at the discretion of the board of directors out of legally available funds. Future payments of dividends, and the amounts of these dividends, will depend on Vectren's financial condition, results of operations, capital requirements and other factors.

The mortgage indenture and the terms of preferred stock of SIGECO contained in its articles of incorporation could limit the ability of SIGECO to pay dividends to Vectren. Under the applicable provisions, SIGECO may pay dividends on common stock from accumulated surplus earned subsequent to 1947 to the extent this surplus exceeds two times the annual dividend requirements on preferred stock. The amount restricted against cash dividends on common stock at December 31, 2000 under the restriction based on annual dividend requirements was \$1,925,951, leaving \$251,630,083 unrestricted for the payment of dividends.

13

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected consolidated financial information. The information should be read in conjunction with the company's consolidated financial statements and notes thereto presented under Part II, Item 8 of this Form 10-K. The financial information as of December 31, 1998, 1999 and 2000 and for the years ended December 31, 1997, 1998, 1999 and 2000 are derived from the company's audited consolidated financial statements. The financial information as of December 31, 1996 and 1997 and for the year ended December 31, 1996 is derived from internal unaudited consolidated financial statements. This information has been restated to reflect the pooling of interest transaction pursuant to which each of Indiana Energy and SIGCORP merged into Vectren. Vectren's 2000 results reflect two months of results of the Ohio operations.

	Year Ended December 31		
	1996	1997	1998
	-----	-----	-----
	(in thousands, except per share data)		

Operating Data:

Operating revenue	\$ 965,335	\$ 972,081	\$ 997,706
-------------------	------------	------------	------------

Edgar Filing: VECTREN CORP - Form 10-K405

Operating income	\$ 160,146	\$ 124,556	(3)	\$ 148,537
Net income	\$ 83,657	\$ 67,714	(3)	\$ 86,600
Average common shares outstanding	61,522	61,611		61,578
Fully diluted common shares outstanding	61,575	61,614		61,756
Basic earnings per share on common stock	\$ 1.36	\$ 1.10	(3)	\$ 1.41
Diluted earnings per share on common stock	\$ 1.36	\$ 1.10	(3)	\$ 1.40
Dividends per share on common stock	\$ 0.85	\$ 0.88		\$ 0.90

Balance Sheet Data:

Total Assets	\$1,719,547	\$1,758,634		\$1,798,840
Long Term Debt	\$ 409,058	\$ 475,490		\$ 388,938
Redeemable Preferred Stock	\$ 8,424	\$ 8,424		\$ 8,308
Common stock equity	\$ 639,067	\$ 653,666		\$ 677,914

Year Ended December 31
1999 2000 (2)

(in thousands, except per share data)

Operating Data:

Operating revenue	\$1,068,417	\$1,648,690	
Operating income	\$ 160,772	\$ 130,921	(1)
Net income	\$ 90,748	\$ 72,040	(1)
Average common shares outstanding	61,306	61,297	
Fully diluted common shares outstanding	61,430	61,380	
Basic earnings per share on common stock	\$ 1.48	\$ 1.18	(1)
Diluted earnings per share on common stock	\$ 1.48	\$ 1.17	(1)
Dividends per share on common stock	\$ 0.94	\$ 0.98	

Balance Sheet Data:

Total Assets	\$1,980,467	\$2,909,187
Long Term Debt	\$ 486,726	\$ 631,954
Redeemable Preferred Stock	\$ 8,192	\$ 8,076
Common stock equity	\$ 709,757	\$ 731,684

(1) Merger and integration related costs incurred for the year ended December 31, 2000 totaled \$41.1 million. These costs relate primarily to transaction costs, severance and other merger and acquisition integration activities.

As a result of merger integration activities, management has identified certain information systems that are expected to be retired in 2001. Accordingly, the useful lives of these assets have been shortened to reflect this decision, resulting in an increase in depreciation expense of approximately \$11.4 million

Edgar Filing: VECTREN CORP - Form 10-K405

for the year ended December 31, 2000.

In total, merger and integration related costs incurred for the year ended December 31, 2000 were \$52.5 million (\$36.8 million after tax).

(2) At December 31, 2000, Indiana Gas is not in compliance with the total indebtedness to capitalization ratio contained in its back up credit facility for its commercial paper program. The non-compliance resulted from the indebtedness incurred to purchase its ownership interest in the Ohio operations. A waiver on the Indiana Gas facility has been obtained to waive the non-compliance through and including March 31, 2001. Vectren will provide an equity investment in Indiana Gas to bring Indiana Gas into compliance. No amount is outstanding under the back up facility.

(3) During 1997, board of directors of the Indiana Gas authorized management to undertake the actions necessary and appropriate to restructure Indiana Gas' operations and recognize a resulting restructuring charge of \$39.5 million (\$24.5 million after tax) which included estimated costs related to involuntary workforce reductions.

14

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto:

Description of the Business

Vectren Corporation (Vectren) is an Indiana corporation that was organized on June 10, 1999, solely for the purpose of effecting the merger of Indiana Energy, Inc. (Indiana Energy) and SIGCORP, Inc. (SIGCORP). On March 31, 2000, the merger of Indiana Energy with SIGCORP and into Vectren was consummated with a tax-free exchange of shares and has been accounted for as a pooling of interests. The common shareholders of SIGCORP received one and one-third shares of Vectren common stock for each SIGCORP common share and the common shareholders of Indiana Energy received one share of Vectren common stock for each Indiana Energy common share, resulting in the issuance of 61.3 million shares of Vectren common stock. The preferred stock and debt securities of Indiana Energy's and SIGCORP's utility subsidiaries were not affected by the merger.

Vectren is a public utility holding company, whose wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), is the intermediate holding company for Vectren's three operating public utilities, Indiana Gas Company, Inc. (Indiana Gas), formerly a wholly owned subsidiary of Indiana Energy, Southern Indiana Gas and Electric Company (SIGECO), formerly a wholly owned subsidiary of SIGCORP, and the Ohio operations (defined hereafter). VUHI's regulated subsidiaries serve approximately one million customers. Indiana Gas and its subsidiaries provide natural gas and

Edgar Filing: VECTREN CORP - Form 10-K405

transportation services to a diversified base of customers in 311 communities in 49 of Indiana's 92 counties. SIGECO provides generation, transmission, distribution and the sale of electric power to Evansville, Indiana, and 74 other communities, and the distribution and sale of natural gas to Evansville, Indiana, and 64 communities in ten counties in southwestern Indiana. Vectren's Ohio operations provide natural gas distribution and transportation services to Dayton, Ohio and 16 counties in west central Ohio.

Vectren is involved in non-regulated activities through three primary business groups: Energy Services, Utility Services, and Communications. Energy Services trades and markets natural gas and provides energy performance contracting services. Utility Services provides utility products and services, such as underground construction and facilities locating, meter reading and materials management, and the mining and sale of coal. Communications provides integrated broadband communications services, including local and long distance telephone, Internet access and cable television. In addition, other businesses invest in other energy-related opportunities and corporate technology.

Acquisition of Gas Distribution Assets of The Dayton Power and Light Company

On December 15, 1999, Indiana Energy, now Vectren, announced that the board of directors had approved a definitive agreement under which it would acquire the natural gas distribution assets of The Dayton Power and Light Company, which would add 310,000 gas distribution customers in 16 counties in west central Ohio. On October 31, 2000, Vectren completed the approximate \$465 million acquisition. Vectren acquired the natural gas distribution assets as a tenancy in common through two wholly owned subsidiaries. Vectren Energy Delivery of Ohio, Inc. (VEDO) holds a 53 percent undivided ownership interest in the assets and Indiana Gas holds a 47 percent undivided ownership interest in the assets. VEDO is the operator of the assets,

15

operations of which are herein referred to as "the Ohio operations." VUHI established a \$435 million commercial paper program to fund the majority of the acquisition. This facility was utilized at October 31, 2000, and will be replaced over time with permanent financing. VEDO's portion of the acquisition was funded with short-term borrowings from VUHI. Indiana Gas' portion of the acquisition was funded with a combination of short-term borrowings from VUHI and its commercial paper program.

Common Stock Offering

On January 19, 2001, Vectren filed a registration statement with the Securities and Exchange Commission with respect to a public offering of 5.5 million shares of new common stock. On February 8, 2001, the registration became effective and agreement was reached to sell 5.5 million shares to a group of underwriters. On February 14, the shares were sold, at which time the underwriters exercised their over-allotment option to sell an additional 825,000 shares for a total of about 6.3 million shares. The net proceeds of \$129.4 million will be used principally to repay outstanding commercial paper utilized for

Edgar Filing: VECTREN CORP - Form 10-K405

recent acquisitions.

Recent Development

In March 2001, Vectren, Indiana Gas, and SIGECO reached agreement with the Indiana Office of Utility Consumer Counselor (OUCC) and The Citizens Action Coalition of Indiana, Inc. (CAC) regarding an Indiana Utility Regulatory Commission (IURC) Order disallowing Indiana Gas the recovery of \$3.8 million in gas costs. Vectren recorded a \$3.8 million reduction of 2000 fourth quarter revenues as a result of the disallowance.

As part of the agreement, among other things, the company agreed to contribute additional funds to the state of Indiana's Low Income Heating Assistance Program in 2001 and to credit \$3.3 million of the \$3.8 million disallowed amount to Indiana Gas customers' April 2001 utility bills in exchange for both the OUCC and the CAC dropping their appeals of the IURC Order.

For further information on the \$3.8 million disallowance refer to Rate and Regulatory Matters below. For further information on the settlement refer to Vectren's Current Report on Form 8-K dated March 29, 2001.

Results of Operations

Vectren's consolidated earnings result from the operations of its utility subsidiaries, Indiana Gas, SIGECO and the Ohio operations, and from the non-utility operations and investments of Vectren's non-regulated businesses.

(In millions except per
share amounts) 2000