

VECTREN UTILITY HOLDINGS INC
Form 10-Q
August 11, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

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,
Evansville,
Indiana, 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. Yes No

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

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Large accelerated filer Accelerated filer Non-accelerated filer

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

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

<u>Common Stock- Without Par</u>	<u>10</u>	<u>July 31, 2006</u>
<u>Value</u>		
Class	Number of Shares	Date

Table of Contents

Item Number		Page Number
PART I. FINANCIAL INFORMATION		
1	Financial Statements (Unaudited) Vectren Utility Holdings, Inc and Subsidiary Companies	
	Consolidated Condensed Balance Sheets	4-5
	Consolidated Condensed Statements of Income	6
	Consolidated Condensed Statements of Cash Flows	7
	Notes to Unaudited Consolidated Condensed Financial Statements	8
2	Management’s Discussion and Analysis of Results of Operations and Financial Condition	19
3	Quantitative and Qualitative Disclosures About Market Risk	28
4	Controls and Procedures	28
PART II. OTHER INFORMATION		
1	Legal Proceedings	28
1A	Risk Factors	28
6	Exhibits	28
	Signatures	29

Access to Information

Vectren Corporation makes available all SEC filings and recent annual reports free of charge, including those of its wholly owned subsidiary, Vectren Utility Holdings, Inc., through its website at www.vectren.com, or by request, directed to Investor Relations at the mailing address, phone number, or email address that follows:

Mailing Address:
One Vectren Square
Evansville, Indiana 47708

Phone Number:
(812) 491-4000

Investor Relations Contact:
Steven M. Schein
Vice President, Investor Relations
sschein@vectren.com

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	NOx: nitrogen oxide
FERC: Federal Energy Regulatory Commission	OCC: Ohio Office of the Consumer Counselor
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
MCF / MMCF / BCF: thousands / millions / billions of cubic feet	SFAS: Statement of Financial Accounting Standards
MDth / MMDth: thousands / millions of dekatherms	USEPA: United States Environmental Protection Agency
MISO: Midwest Independent Transmission System Operator	Throughput: combined gas sales and gas transportation volumes

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited - In millions)

	June 30, 2006	December 31, 2005
<u>ASSETS</u>		
Current Assets		
Cash & cash equivalents	\$ 4.6	\$ 11.7
Accounts receivable - less reserves of \$3.7 & \$2.6, respectively	88.6	170.7
Receivables due from other Vectren companies	1.5	2.2
Accrued unbilled revenues	36.3	212.5
Inventories	112.1	126.2
Recoverable fuel & natural gas costs	-	15.4
Prepayments & other current assets	104.3	117.2
Total current assets	347.4	655.9
Utility Plant		
Original cost	3,726.2	3,632.0
Less: accumulated depreciation & amortization	1,420.7	1,380.1
Net utility plant	2,305.5	2,251.9
Investments in unconsolidated affiliates	0.2	0.2
Other investments	20.7	21.0
Non-utility property - net	159.1	160.0
Goodwill	205.0	205.0
Regulatory assets	102.7	89.9
Other assets	7.6	7.3
TOTAL ASSETS	\$ 3,148.2	\$ 3,391.2

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

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited - In millions)

	June 30, 2006	December 31, 2005
<u>LIABILITIES & SHAREHOLDER'S EQUITY</u>		
Current Liabilities		
Accounts payable	\$ 59.6	\$ 131.9
Accounts payable to affiliated companies	38.0	140.6
Payables to other Vectren companies	13.4	29.2
Refundable fuel & natural gas costs	34.9	7.6
Accrued liabilities	117.7	130.4
Short-term borrowings	130.4	226.9
Long-term debt subject to tender	-	53.7
Total current liabilities	394.0	720.3
Long-Term Debt - Net of Current Maturities & Debt Subject to Tender	1,051.6	997.8
Deferred Income Taxes & Other Liabilities		
Deferred income taxes	277.0	275.5
Regulatory liabilities	289.8	272.9
Deferred credits & other liabilities	101.8	100.9
Total deferred credits & other liabilities	668.6	649.3
Commitments & Contingencies (Notes 6 - 8)		
Common Shareholder's Equity		
Common stock (no par value)	612.9	612.9
Retained earnings	420.1	406.9
Accumulated other comprehensive income	1.0	4.0
Total common shareholder's equity	1,034.0	1,023.8
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	\$ 3,148.2	\$ 3,391.2

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

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited - In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
OPERATING REVENUES				
Gas utility	\$ 159.1	\$ 186.0	\$ 731.8	\$ 702.7
Electric utility	96.0	96.9	201.2	191.6
Other	0.5	0.1	0.9	0.3
Total operating revenues	255.6	283.0	933.9	894.6
OPERATING EXPENSES				
Cost of gas sold	88.5	116.3	517.5	487.2
Cost of fuel & purchased power	30.9	33.0	69.0	62.2
Other operating	59.6	59.2	121.2	120.8
Depreciation & amortization	37.7	34.5	74.8	67.9
Taxes other than income taxes	11.6	11.7	34.4	33.5
Total operating expenses	228.3	254.7	816.9	771.6
OPERATING INCOME	27.3	28.3	117.0	123.0
OTHER INCOME - NET	1.9	1.1	2.8	3.3
INTEREST EXPENSE	18.2	16.4	38.2	33.3
INCOME BEFORE INCOME TAXES	11.0	13.0	81.6	93.0
TAXES	11.0	13.0	81.6	93.0
INCOME TAXES	3.9	5.2	31.1	37.1
NET INCOME	\$ 7.1	\$ 7.8	\$ 50.5	\$ 55.9

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

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited - In millions)

	Six Months Ended June 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 50.5	\$ 55.9
Adjustments to reconcile net income to cash from operating activities:		
Depreciation & amortization	74.8	67.9
Deferred income taxes & investment tax credits	(0.5)	4.0
Expense portion of pension & postretirement periodic benefit cost	2.1	2.2
Provision for uncollectible accounts	5.4	4.9
Other non-cash charges - net	3.2	(1.8)
Changes in working capital accounts:		
Accounts receivable, including to Vectren companies & accrued unbilled revenue	253.6	182.0
Inventories	14.1	1.2
Recoverable fuel & natural gas costs	42.7	30.8
Prepayments & other current assets	6.2	47.3
Accounts payable, including to Vectren companies & affiliated companies	(195.7)	(103.6)
Accrued liabilities	(23.0)	8.6
Changes in noncurrent assets	(12.6)	(3.7)
Changes in noncurrent liabilities	2.4	(7.2)
Net cash flows from operating activities	223.2	288.5
CASH FLOWS FROM FINANCING ACTIVITIES		
Requirements for:		
Dividends to parent	(37.3)	(40.0)
Redemption of preferred stock of subsidiary	-	(0.1)
Net change in short-term borrowings	(96.5)	(167.3)
Net cash flows from financing activities	(133.8)	(207.4)
CASH FLOWS FROM INVESTING ACTIVITIES		
Requirements for:		
Capital expenditures, excluding AFUDC - equity	(96.5)	(81.7)
Net cash flows from investing activities	(96.5)	(81.7)
Net decrease in cash & cash equivalents	(7.1)	(0.6)
Cash & cash equivalents at beginning of period	11.7	5.7
Cash & cash equivalents at end of period	\$ 4.6	\$ 5.1

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

VECTREN UTILITY HOLDINGS, INC. AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Nature of Operations

Vectren Utility Holdings, Inc. (Utility Holdings or the Company), an Indiana corporation, serves 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. Utility Holdings also has other assets that provide information technology and other services to the three utilities. Vectren is an energy holding company headquartered in Evansville, Indiana. Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005.

Indiana Gas provides energy delivery services to approximately 562,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to approximately 140,000 electric customers and approximately 112,000 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 318,000 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, (53% ownership) and Indiana Gas (47% ownership). The Ohio operations generally do business as Vectren Energy Delivery of Ohio.

2. Basis of Presentation