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VECTREN CORP  
Form 10-K/A  
June 18, 2003

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

FORM 10-K/A  
Amendment No. 1

(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, 2002  
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.)

20 N.W. Fourth Street, Evansville, Indiana

47708

-----  
(Address of principal executive offices)

-----  
(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

Name of each exchange on which registered

-----  
Common - Without Par

-----  
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

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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 an accelerated filer (as defined in Rule 12b-2 of the 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 28, 2002 was \$1,624,281,589.

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	68,011,649	February 15, 2003
Class	Number of Shares	Date

### Documents Incorporated by Reference

Certain information in the Company's definitive Proxy Statement for the 2003 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year, is incorporated by reference in Part III of this Form 10-K.

### 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 / millions of megawatt hours (gigawatt hour)
FASB: Financial Accounting Standards Board	NOx: nitrogen oxide
FERC: Federal Energy Regulatory Commission	OUC: Indiana Office of the Utility Consumer Couns
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: millions / billions of cubic feet	USEPA: United States Environmental Protection Agency
MDth/MMDth: thousands /millions of dekatherms	Throughput: combined gas sales and gas transportation volumes

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## 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 the Company's Common Equity and Related Stockholder Matters .....	12
6	Selected Financial Data.....	13
7	Management's Discussion and Analysis of Results of Operations and Financial Condition.....	14
7A	Qualitative and Quantitative Disclosures About Market Risk.....	40
8	Financial Statements and Supplementary Data.....	42
9	Change in and Disagreements with Accountants on Accounting and Financial Disclosure.....	89
Part III		
10	Directors and Executive Officers of the Registrant.....	89
11	Executive Compensation.....	90
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	90
13	Certain Relationships and Related Transactions.....	91
Part IV		
14	Controls and Procedures.....	91
15	Exhibits, Financial Statement Schedules, and Reports on Form 8-K.....	92
	Signatures.....	94

## Access to Information

Vectren Corporation makes available all SEC filings and recent annual reports free of charge through its website at [www.vectren.com](http://www.vectren.com), 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:
P.O. Box 209	(812) 491-4000	Steven M. Schein
Evansville, Indiana		Vice President, Investor Relations
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## Explanatory Note

This Amendment No. 1 to Form 10-K filed on Form 10-K/A for the year ended December 31, 2002, is being filed to clarify various disclosures in the Description of Business section of Item 1 of Part I, the Results of Operations by Business Segments and Financial Condition sections of Item 7 of Part II and the Consolidated Statements of Cash Flows and Notes 2, 7, 8, 14 and 16 to the Consolidated Financial Statements of Item 8 of Part II. All information contained herein is as of February 26, 2003, and does not reflect any events or changes in information that may have occurred subsequent to February 26, 2003. For a discussion of events and developments relating to periods subsequent to February 26, 2003, see the Company's reports filed with the Securities and Exchange Commission for such subsequent periods, including the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003.

## PART I

### ITEM 1. BUSINESS

#### Description of the Business

Indiana Energy, Inc. (Indiana Energy) and SIGCORP, Inc. (SIGCORP) are the predecessor companies to Vectren Corporation. Indiana Energy, incorporated under Indiana law on October 24, 1985, was engaged in natural gas distribution, gas portfolio administrative services, and marketing of natural gas, electric power and related services. Indiana Energy had fourteen subsidiaries, including ten nonregulated direct or indirect subsidiaries, a not-for-profit foundation and three utility subsidiaries, as well as investments in four nonregulated joint ventures. SIGCORP, incorporated under Indiana law on October 19, 1994, was engaged in electric generation, transmission, and distribution, natural gas distribution, coal mining, and broadband communication services. SIGCORP had eleven wholly-owned subsidiaries, including ten nonregulated subsidiaries.

Vectren Corporation (the Company or Vectren), an Indiana corporation, is an energy and applied technology holding company headquartered in Evansville, Indiana. The Company was organized on June 10, 1999 solely for the purpose of effecting the merger of Indiana Energy and 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 in accordance with APB Opinion No. 16 "Business Combinations" (APB 16).

The Company's wholly owned subsidiary, Vectren Utility Holdings, Inc. (VUHI), serves as the intermediate holding company for its 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. Both Vectren and VUHI are exempt from registration pursuant to Section 3(a)(1) and 3(c) of the Public Utility Holding Company Act of 1935.

Indiana Gas provides natural gas distribution and transportation services to a diversified customer base in 49 of Indiana's 92 counties. SIGECO provides electric generation, transmission, and distribution services to 8 counties in southwestern Indiana, including counties surrounding Evansville, and participates in the wholesale power market. SIGECO also provides natural gas distribution and transportation services to 10 counties in southwestern Indiana, including counties surrounding Evansville. The Ohio operations provide natural gas distribution and transportation services to 17 counties in west central Ohio, including counties surrounding Dayton.

The Company is also involved in nonregulated activities in four primary business areas: Energy Marketing and Services, Coal Mining, Utility Infrastructure

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Services, and Broadband. Energy Marketing and Services markets natural gas and provides energy management services, including energy performance contracting services. Coal Mining mines and sells coal to the Company's utility operations and to other parties and generates IRS Code Section 29 investment tax credits relating to the production of coal-based synthetic fuels. Utility Infrastructure Services provides underground construction and repair, facilities locating, and meter reading services. Broadband invests in broadband communication services such as analog and digital cable television, high-speed Internet and data services, and advanced local and long distance phone services. In addition, the nonregulated group has other businesses that provide utility services, municipal broadband consulting, and retail products and services and that invest in energy-related opportunities, real estate and leveraged leases.

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

On October 31, 2000, the Company acquired the natural gas distribution assets of The Dayton Power and Light Company for \$471 million, including transaction costs. The acquisition has been accounted for as a purchase transaction in accordance with APB 16, and accordingly, the results of operations of the acquired assets are included in the Company's financial results since the date of acquisition.

The Company acquired the natural gas distribution assets as a tenancy in common through two separate wholly owned subsidiaries. Vectren Energy Delivery of Ohio, Inc. (VEDO) holds a 53% undivided ownership interest in the assets, and Indiana Gas holds a 47% undivided ownership interest. VEDO is the operator of the assets, and these operations are referred to as "the Ohio operations."

### Narrative Description of the Business

The Company segregates its businesses into gas utility services, electric utility services, nonregulated, and corporate and other business segments. The Company collectively refers to its gas and electric utility services segments as its regulated operations. At December 31, 2002, the Company had \$2.9 billion in total assets, with \$2.4 billion (83%) attributed to the regulated operations, \$0.4 billion (14%) attributed to the nonregulated operations, and \$0.1 billion (3%) attributed to the corporate and other group. Net income for the year ended 2002 was \$114.0 million, or \$1.69 per share of common stock, with \$93.6 million attributed to regulated, \$19.0 million attributed to nonregulated, and \$1.4 million attributed to corporate and other. Net income, as restated, for the year ended 2001 was \$52.7 million, or \$0.79 per share of common stock. The year ending December 31, 2001 included nonrecurring charges with an after tax impact of \$26.4 million. Nonrecurring items net of tax in 2001 included \$8.0 million of merger and integration costs, \$11.8 million of restructuring costs, \$7.7 million of extraordinary loss, and a \$1.1 million gain resulting from a cumulative effect of change in accounting principle.

For further information refer to Note 3 regarding the restatement of previously reported information, Note 18 regarding the segments' activities and assets, Note 19 regarding special charges in 2001 and 2000, Note 5 regarding the extraordinary loss, and Note 16 regarding the cumulative effect of change in accounting principle in the Company's consolidated financial statements included under Item 8 Financial Statements and Supplementary Data.

Following is a more detailed description of the regulated and nonregulated business segments. The operations of the corporate and other business segment, which include primarily information technology services, are not significant.

### Regulated Business Segments

The Company's regulated operations are comprised of its Gas Utility Services and Electric Utility Services segments. The Gas Utility Services segment includes

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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 west central Ohio. The Electric Utility Services segment includes the operations of SIGECO's electric transmission and distribution services, which provides electricity primarily to southwestern Indiana, and SIGECO's power generating and power marketing operations.

### Gas Utility Services

At December 31, 2002, the Company supplied natural gas service to 966,761 Indiana and Ohio customers, including 882,151 residential, 80,483 commercial, and 4,127 industrial and other customers. This represents customer base growth of 1.4% compared to 2001.

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, and coal mining. The largest Indiana communities served are Evansville, Muncie, Anderson, Lafayette, West Lafayette, Bloomington, Terre Haute, Marion, New Albany, Columbus, Jeffersonville, New Castle, and Richmond. The largest community served outside of Indiana is Dayton, Ohio.

### Revenues

For the year ended December 31, 2002, natural gas revenues were approximately \$909.0 million of which residential customers accounted for 67%, commercial 23%, and industrial and other 10%, respectively.

The Company receives gas revenues by selling gas directly to residential, commercial, and industrial customers at approved rates or by transporting gas through its pipelines at approved rates to commercial and industrial customers that have purchased gas directly from other producers, brokers, or marketers. Total volumes of gas provided to both sales and transportation customers (throughput) was 207,693 MDth for the year ended December 31, 2002. Transported gas represented 44% 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, the Company owns and operates seven underground gas storage fields and six liquefied petroleum air-gas manufacturing plants. The Company also contracts with ProLiance and other parties to ensure availability of gas. 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 and manufactured volumes during periods of peak requirements. Approximately 909,500 MCF of gas per day can be withdrawn during peak demand periods from all sources and for all utilities.

### Gas Purchases

In 2002, the Company purchased natural gas from multiple suppliers including ProLiance Energy, LLC (ProLiance). ProLiance is an unconsolidated, nonregulated, energy marketing affiliate of Vectren and Citizens Gas and Coke Utility. (See Note 4 in the Company's consolidated financial statements included in Item 8 Financial Statements and Supplementary Data regarding transactions with ProLiance ). The Company purchased 120,764 MDth volumes of gas in 2002 at an average cost of \$4.57 per Dth, of which 94% was purchased from ProLiance. The average cost of gas per Dth purchased for the last five years was; \$4.57 in

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2002; \$5.83 in 2001; \$5.60 in 2000; \$3.58 in 1999; and \$3.53 in 1998.

### Regulatory and Environmental Matters

See Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition regarding the Company's regulated environment and issues involving manufactured gas plants.

### Electric Utility Services

At December 31, 2002, the Company supplied electric service to 134,057 Indiana customers, including 116,979 residential, 16,881 commercial, and 197 industrial and other customers. This represents customer base growth of 0.6% compared to 2001. In addition, the Company is obligated to provide for firm power commitments to several municipalities and to maintain spinning reserve margin requirements under an agreement with the East Central Area Reliability Group.

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, and coal mining.

### Revenues

For the year ended December 31, 2002, retail and firm wholesale electricity sales totaled 6,187,132 MWh, resulting in revenues of approximately \$305.3 million. Residential customers accounted for 35% of 2002 revenues; commercial 26%; industrial and municipalities 37%; and other 2%. In addition, the Company sold 10,711,614 MWh through non-firm wholesale contracts in 2002 generating revenue of \$302.8 million.

### Generating Capacity

Installed generating capacity as of December 31, 2002 was rated at 1,351 MW. Coal-fired generating units provide 1,056 MW of capacity, and gas or oil-fired turbines used for peaking or emergency conditions provide 295 MW. New peaking capacity of 80 MW fueled by natural gas was added during 2002 and was available for the summer peaking season.

In addition to its generating capacity, throughout 2002 the Company had 82MW available under firm contracts and 95 MW available under interruptible contracts. On January 1, 2003, a 50 MW firm contract expired and was no longer required and therefore not renewed.

The Company 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, Indiana, providing the historic ability to simultaneously interchange approximately 500 MW. However, the ability of the Company to effectively utilize the electric transmission grid in order to achieve import/export capability may be impacted because the Company, as a member of the Midwest Independent System Operator (MISO), has turned over operational control over the interchange facilities and its own transmission assets like many other Midwestern electric utilities to the MISO. See Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition regarding the Company's participation in MISO.

Total load for each of the years 1998 through 2002 at the time of the system summer peak, and the related reserve margin, is presented below in MW.

Date of summer peak load	8/5/02	7/31/01	8/17/00	7/6/99	7/21/98
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Total load at peak (1)	1,258	1,234	1,212	1,255	1,154
Generating capability	1,351	1,271	1,256	1,256	1,256
Firm purchase supply	82	82	75	-	-
Interruptible contracts	95	95	95	95	85
Total power supply capacity	1,528	1,448	1,426	1,351	1,341
Reserve margin at peak	21%	17%	18%	8%	16%

(1) The total load at peak is increased 25MW in 2002, 2001, 1999, and 1998 from the total load actually experienced. The additional 25 MW represents load that would have been incurred if summer cyclers had not been activated. The 25 MW is also included in the interruptible contract portion of the Company's total power supply capacity. On the date of peak in 2000, summer cyclers programs were not activated.

The winter peak load of the 2001-2002 season of approximately 854 MW occurred on March 4, 2002 and was 8% lower than the previous winter peak load of approximately 925 MW which occurred on December 19, 2000.

The Company maintains a 1.5% interest in the Ohio Valley Electric Corporation (OVEC). The OVEC is comprised of several electric utility companies, including SIGECO and 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. At the present time, the DOE contract demand is essentially zero. Because of this decreased demand, the Company's 1.5% interest in the OVEC makes available approximately 32 MW of capacity, in addition to its generating capacity, for use in other operations.

#### Fuel Costs and Purchased Power

Electric generation for 2002 was fueled by coal (97.5%) and natural gas (2.5%). 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 coal mines including those owned by Vectren Fuels, Inc., a wholly owned subsidiary of the Company. Approximately 3.1 million tons of coal was purchased for generating electricity during 2002. Of this amount, Vectren Fuels, Inc. supplied 2.7 million tons from its mines and third party purchases. The average cost of coal consumed in generating electrical energy for the years 1998 through 2002 follows:

Avg. Cost Per	Year				
	2002	2001	2000	1999	1998
Ton	\$ 23.50	\$ 22.48	\$ 22.49	\$ 21.88	\$ 21.34
MWh	11.00	10.53	10.39	10.13	9.97

The Company will also purchase power as needed from the wholesale market to supplement its generation capabilities in periods of peak demand; however, the majority of power purchased through the wholesale market is used to optimize and hedge the Company's sales to non-firm wholesale customers. Volumes purchased in 2002 totaled 10,362,196 MWh.



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### Regulatory and Environmental Matters

See Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition regarding the Company's regulated environment, and a discussion of the Company's Clean Air Act Compliance Plan, and the USEPA's lawsuit against SIGECO for alleged violations of the Clean Air Act.

### Competition

See Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition regarding competition within the public utility industry for the Company's regulated Indiana and Ohio operations.

### Nonregulated Business Segment

The Company is involved in nonregulated activities in four primary business areas: Energy Marketing and Services, Coal Mining, Utility Infrastructure Services, and Broadband.

#### Energy Marketing and Services

The Energy Marketing and Services group relies heavily upon a customer focused, value added strategy. The group provides natural gas and fuel supply management services to a broad range of municipalities, utilities, industrial operations, schools, and healthcare institutions through ProLiance. ProLiance is a significant gas supplier to the Company's regulated operations. The group also focuses on performance-based energy contracting through Energy Systems Group, LLC. This service helps schools, hospitals, and other governmental and private institutions reduce their energy and maintenance costs by upgrading their facilities with energy-efficient equipment.

ProLiance is an unconsolidated affiliate of the Company and Citizens Gas and Coke Utility (Citizens Gas). Energy Systems Group, LLC is a consolidated venture between the Company and Citizens Gas, with the Company owning two-thirds.

In June 2002, the integration of Vectren's wholly owned subsidiary SIGCORP Energy Services, LLC (SES) with ProLiance was completed. SES provided natural gas and related services to SIGECO and others prior to the integration. In exchange for the contribution of SES' net assets totaling \$19.2 million, including cash of \$2.0 million, Vectren's allocable share of ProLiance's profits and losses increased from 52.5% to 61%, consistent with Vectren's new ownership percentage. In March 2001 Vectren's allocable share of profits and losses increased from 50% to 52.5% when ProLiance began managing the Ohio operations' gas portfolio. Governance and voting rights remain at 50% for each member. Since governance of ProLiance remains equal between the members, Vectren continues to account for its investment in ProLiance using the equity method of accounting.

At December 31, 2002, the Energy Marketing and Services group's natural gas marketing operations had 1,060 customers, up from 984 in 2001. The collective revenue of ProLiance and SES exceeded \$1.7 billion in 2002.

#### Coal Mining

The Coal Mining group provides the mining and sale of coal to the Company's utility operations and to other third parties through its wholly owned subsidiary Vectren Fuels, Inc. The Coal Mining group also generates income tax credits through IRS Code Section 29 investment tax credits relating to the production of coal-based synthetic fuels through its 8.3% ownership in Pace Carbon Synfuels, LP. The Company's two coal mines produced 3.5 million tons in 2002, up from 3.3 million in 2001. The Company's investment in Pace Carbon is accounted for using the equity method of accounting.

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### Utility Infrastructure Services

Utility Infrastructure Services provides underground construction and repair of utility infrastructure services to the Company and to other gas, water, electric, and telecommunications companies as well as facilities locating and meter reading services through its investment in Reliant Services, LLC (Reliant). Reliant is a 50% owned strategic alliance with an affiliate of Cinergy Corp. and is accounted for using the equity method of accounting.

In December 2000, Reliant purchased the common stock of Miller Pipeline Corporation (Miller) from NiSource, Inc. for approximately \$68.3 million. Vectren and Cinergy Corp. each contributed \$16.0 million of equity, and the remaining \$36.3 million was funded with 7-year intermediate bank loans. The acquisition combines Reliant's utility services of underground facility locating, contract meter reading, and installation of telecommunications infrastructure with Miller's underground pipeline construction, replacement, and repair services. Miller is one of the nation's premier natural gas distribution contractors with over 50 years of experience in the construction industry, currently providing such services to Indiana Gas, among other customers.

### Broadband

Broadband invests in broadband communication services such as cable television, high-speed Internet, and advanced local and long distance phone services. The Broadband group provides telecommunications services to approximately 26,800 residential and commercial customers (an increase of 7.9% from 2001) in the greater Evansville area in southwestern Indiana. The present customer base has yielded approximately 78,000 residential revenue generating units (up from approximately 70,000 at the end of 2001) indicating multiple services being utilized by the same residential customer.

The Company has an approximate 1% equity interest and a convertible subordinated debt investment in Utilicom Networks, LLC (Utilicom). Utilicom is a provider of bundled communication services focusing on last mile delivery to residential and commercial customers. The Company also has an 18.9% equity interest in SIGECOM Holdings, Inc., which was formed by Utilicom to hold interests in SIGECOM, LLC (SIGECOM). SIGECOM provides broadband services to the greater Evansville, Indiana, area.

Utilicom also plans to provide services to Indianapolis, Indiana, and Dayton, Ohio. However, the funding of these projects has been delayed due to the continued difficult environment within the telecommunication capital markets, which has prevented Utilicom from obtaining debt financing on terms it considers acceptable. While the existing investors remain interested in the Indianapolis and Dayton projects, the Company is not required to make further investments and does not intend to proceed unless commitments are obtained to fully fund these projects. Franchising agreements have been extended in both locations.

The convertible subordinated debt investment totals \$30.7 million, of which \$28.6 million is convertible into Utilicom ownership at the Company's option or upon the event of a public offering of stock by Utilicom and \$2.1 million is convertible into common equity interests in the Indianapolis and Dayton ventures at the Company's option. Upon conversion, the Company would have up to a 12% interest in Utilicom, assuming completion of all required funding and up to a 31% interest in the Indianapolis and Dayton ventures.

### Other Businesses

In addition to the nonregulated business groups previously discussed, the Other Businesses group invests in a portfolio of interests in gas and power storage, distributed generation projects, and similar energy-related businesses. Additional activities include:

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- o A utility services business, which supplies utilities with a number of important services ranging from supply chain management to environmental compliance testing.
- o A retail unit, providing natural gas and other related products and services primarily in Ohio serving customers opting for choice among energy providers.
- o A broadband consulting business.

Major investments include Haddington Energy Partnerships, two partnerships both approximately 40% owned; CIGMA, LLC, a 50% owned strategic alliance with an affiliate of Citizens Gas; and the wholly owned subsidiaries Southern Indiana Properties, Inc., Energy Realty, Inc., Vectren Retail, LLC, Vectren Communication Services, Inc., and IEI Financial Services, LLC.

### Personnel

As of December 31, 2002, the Company and its consolidated subsidiaries had 1,876 employees, of which 896 are subject to collective bargaining arrangements.

In August 2001, the Company signed a new four-year labor agreement, ending in September 2005 with Local 135 of the Teamsters, Chauffeurs, Warehousemen and Helpers. The new agreement provides for annual wage increases of 3.25%, a new 401(k) savings plan and improvements in the areas of health insurance and pension benefits.

Concurrent with the Company's purchase of the Ohio operations, VEDO and Local Union 175, Utility Workers Union of America approved a labor agreement effective November 2000, through October 2005. The agreement provides a 3.25% 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.

In July 2000, SIGECO signed a new four-year labor agreement with Local 702 of the International Brotherhood of Electrical Workers, ending June 2004. The new agreement provides a 3% wage increase for each year in addition to improvements in health care coverage, retirement benefits and incentive pay.

## ITEM 2. PROPERTIES

### Gas Utility Services

Indiana Gas owns and operates four gas storage fields located in Indiana covering 58,489 acres of land with an estimated ready delivery from storage capability of 4.2 BCF of gas with delivery capabilities of 119,160 MCF per day. Indiana Gas also owns and operates three liquefied petroleum (propane) air-gas manufacturing plants located in Indiana with the ability to store 1.5 million gallons of propane and manufacture for delivery 31,000 MCF of manufactured gas per day. In addition to its owned storage and manufacturing and daily delivery capabilities, Indiana Gas contracts for a maximum of 17.2 BCF of gas availability across various pipelines with a delivery capability of 283,298 MCF per day. Indiana Gas' gas delivery system includes 11,590 miles of distribution and transmission mains, all of which are in Indiana except for pipeline facilities extending from points in northern Kentucky to points in southern Indiana so that gas may be transported to Indiana and sold or transported by Indiana Gas to ultimate customers in Indiana.

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SIGECO owns and operates three underground gas storage fields located in Indiana covering 6,070 acres of land with an estimated ready delivery from storage capability of 8.7 BCF of gas with delivery capabilities of 124,748 MCF per day. In addition to its owned storage and daily delivery capabilities, SIGECO contracts for a maximum of 0.5 BCF of gas availability across various pipelines with a delivery capability of 18,753 MCF per day. SIGECO's gas delivery system includes 2,996 miles of distribution and transmission mains, all of which are located in Indiana.

The Ohio operations owns and operates three liquefied petroleum (propane) air-gas manufacturing plants and one cavern for propane storage, all of which are located in Ohio. The plants and cavern can store 3.7 million gallons of propane, and the plants can manufacture for delivery 51,047 MCF of manufactured gas per day. In addition to its owned storage and manufacturing and daily delivery capabilities, the Ohio operations contracts for a maximum of 13.2 BCF of gas availability across various pipelines with a delivery capability of 281,491 MCF per day. The Ohio operations' gas delivery system includes 5,176 miles of distribution and transmission mains, all of which are located in Ohio.

### Electric Utility Services

SIGECO's installed generating capacity as of December 31, 2002, was rated at 1,351 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 150 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 3 Gas Turbine located at the Brown Station; two Broadway Avenue Gas Turbines located in Evansville, Indiana with a combined capacity of 115 MW (Broadway Avenue Unit 1, 50MW and Broadway Avenue Unit 2, 65MW); two Northeast Gas Turbines located northeast of Evansville in Vanderburgh County, Indiana with a combined capacity of 20 MW; and a new 80MW turbine also located at the Brown station (Brown Unit 4) placed into service in 2002. The Brown Unit 3 and Broadway Avenue Unit 2 turbines are also equipped to burn oil. Total capacity of SIGECO's six gas turbines is 295 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 829 circuit miles of 138,000 and 69,000 volt lines. The transmission system also includes 27 substations with an installed capacity of 4,221.2 megavolt amperes (Mva). The electric distribution system includes 3,212 pole miles of lower voltage overhead lines and 275 trench miles of conduit containing 1,541 miles of underground distribution cable. The distribution system also includes 95 distribution substations with an installed capacity of 1,939.5 Mva and 51,030 distribution transformers with an installed capacity of 2,352.3 Mva.

SIGECO owns utility property outside of Indiana approximating eight miles of 138,000 volt electric transmission line which is located in Kentucky and which interconnects with Louisville Gas and Electric Company's transmission system at Cloverport, Kentucky.

### Nonregulated 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. The assets of the coal mining operations comprise approximately 3 percent of total assets.

### Property Serving as Collateral

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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, as Trustee, and Deutsche Bank, as successor Trustee, as supplemented by various supplemental indentures.

### ITEM 3. LEGAL PROCEEDINGS

The Company is party to various legal proceedings arising in the normal course of business. In the opinion of management, there are no legal proceedings pending against the Company that are likely to have a material adverse effect on its financial position or results of operations. See Note 14 of its consolidated financial statements included in Item 8 Financial Statements and Supplementary Data regarding the Clean Air Act and related legal proceedings. Legal proceedings involving transactions with ProLiance were substantially resolved during 2002. See Note 4 for a discussion of regulatory matters related to ProLiance.

### 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

The Company's common stock trades on the New York Stock Exchange under the symbol "VVC." For each quarter in 2002 and 2001, the high and low sales prices for the Company's common stock as reported on the New York Stock Exchange and dividends paid are shown in the following table.

	Cash Dividend	Common Stock Price Range	
		High	Low
2002			
First Quarter	\$ 0.265	\$ 25.95	\$ 22.45
Second Quarter	0.265	26.10	23.10
Third Quarter	0.265	25.44	17.95
Fourth Quarter	0.275	25.00	21.05
2001			
First Quarter	\$ 0.255	\$ 24.44	\$ 21.00
Second Quarter	0.255	23.90	20.38
Third Quarter	0.255	22.46	19.76
Fourth Quarter	0.265	24.07	21.05

On January 22, 2003, the board of directors declared a dividend of \$0.275 per share, payable on March 3, 2003, to common shareholders of record on February 14, 2003.

As of January 31, 2003, there were 13,460 shareholders of record of the Company'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 the Company's financial condition, results of operations, capital requirements, and other factors.

### ITEM 6. SELECTED FINANCIAL DATA

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The following selected financial data is derived from the Company's audited consolidated financial statements and should be read in conjunction with those financial statements and notes thereto contained in this Form 10-K. The financial information as of and for the years ended December 31, 2001 and 2000 has been restated. Common shareholders' equity as of January 1, 2000 also reflects adjustments related to years prior to 2000. See Note 3 to the consolidated financial statements included under Item 8 Financial Statements and Supplementary Data for further information on the restatement.

In millions, except per share data	2002	2001 (1)	2000 (2,3)	1999	1998
	(As Restated)				
<b>Operating Data:</b>					
Operating revenues	\$ 1,804.3	\$ 2,081.8	\$ 1,632.8	\$ 1,068.4	\$ 997.7
Operating income	\$ 211.3	\$ 127.9	\$ 131.7	\$ 160.8	\$ 148.5
Income before extraordinary loss & cumulative effect of change in accounting principle	\$ 114.0	\$ 59.3	\$ 72.0	\$ 90.7	\$ 86.6
Net income	\$ 114.0	\$ 52.7	\$ 72.0	\$ 90.7	\$ 86.6
Average common shares outstanding	67.6	66.7	61.3	61.3	61.6
Fully diluted common shares outstanding	67.9	66.9	61.4	61.4	61.8
Basic earnings per share before extraordinary loss & cumulative effect of change in accounting principle	\$ 1.69	\$ 0.89	\$ 1.18	\$ 1.48	\$ 1.41
Basic earnings per share on common stock	\$ 1.69	\$ 0.79	\$ 1.18	\$ 1.48	\$ 1.41
Diluted earnings per share before extraordinary loss & cumulative effect of change in accounting principle	\$ 1.68	\$ 0.89	\$ 1.17	\$ 1.48	\$ 1.40
Diluted earnings per share on common stock	\$ 1.68	\$ 0.79	\$ 1.17	\$ 1.48	\$ 1.40
Dividends per share on common stock	1.07	\$ 1.03	\$ 0.98	\$ 0.94	\$ 0.90
<b>Balance Sheet Data:</b>					
Total assets	\$ 2,926.5	\$ 2,878.7	\$ 2,943.7	\$ 1,980.5	\$ 1,798.8
Long-term debt, net	\$ 954.2	\$ 1,014.0	\$ 632.0	\$ 486.7	\$ 388.9
Redeemable preferred stock	\$ 0.3	\$ 0.5	\$ 8.1	\$ 8.2	\$ 8.3
Common shareholders' equity	\$ 869.9	\$ 839.3	\$ 733.4	\$ 709.8	\$ 677.9

(1) Merger and integration related costs incurred for the year ended December 31, 2001 totaled \$2.8 million. These costs relate primarily to transaction costs, severance and other merger and acquisition integration activities. As a result of merger integration activities, management retired certain information systems in 2001. Accordingly, the useful lives of these assets were shortened to reflect this decision, resulting in additional depreciation expense of approximately \$9.6 million for the year ended December 31, 2001. In total, merger and integration related costs incurred for the year ended December 31, 2001 were \$12.4 million (\$8.0 million after tax).

The Company incurred restructuring charges of \$19.0 million, (\$11.8 million

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after tax) relating to employee severance, related benefits and other employee related costs, lease termination fees related to duplicate facilities, and consulting and other fees.

- (2) 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 identified certain information systems to be retired in 2001. Accordingly, the useful lives of these assets were shortened to reflect this decision, resulting in additional depreciation expense of approximately \$11.4 million 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).
- (3) Reflects two months of results of the Ohio operations.

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto. As discussed in Note 3 in the consolidated financial statements, subsequent to the issuance of the Company's 2001 financial statements, the Company's management determined that previously issued financial statements should be restated. As a result, the Company has restated its 2001 and 2000 financial statements and has increased reported retained earnings as of January 1, 2000 by \$1.7 million. The restatement had the effect of decreasing net income for 2001 and 2000 by \$10.9 million and \$48,000, respectively. Note 3 in the consolidated financial statements includes a summary of the significant effects of the restatement. The effect of the restatement on quarterly results, including previously reported 2002 quarterly information, is discussed in Note 21. The following discussion and analysis gives effect to the restatement.

#### Consolidated Results of Operations

	Year Ended December 31,		
In millions, except per share amounts	2002	2001	2000
		(As Restated)	
Net income	\$ 114.0	\$ 52.7	\$ 72.0
Attributed to:			
Regulated	\$ 93.6	\$ 40.1	\$ 52.5
Nonregulated	19.0	12.1	21.8
Corporate & other	1.4	0.5	(2.3)
Basic earnings per share	\$ 1.69	\$ 0.79	\$ 1.18
Attributed to:			
Regulated	\$ 1.39	\$ 0.60	\$ 0.85
Nonregulated	0.28	0.18	0.36
Corporate & other	0.02	0.01	(0.03)

In 2002, consolidated net income increased \$61.3 million, or \$0.90 per share, when compared to 2001, as restated. The year ended December 31, 2001 included nonrecurring merger, integration, and restructuring costs and other nonrecurring

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items totaling \$26.4 million after tax, or \$0.40 per share. In addition to the nonrecurring 2001 items, the increase reflects improved margins and lower operating costs. These resulted from favorable weather and a return to lower gas prices and the related reduction in costs incurred in 2001. Also contributing to the increase was increased earnings from the Energy Marketing and Services Group and a smaller loss in the Other Businesses Group, both of which are components of nonregulated operations.

In 2001, consolidated net income decreased \$19.3 million, or \$0.39 per share, compared to 2000. The year ended December 31, 2000 included nonrecurring merger, integration, and restructuring costs net of other nonrecurring items totaling \$31.9 million after tax, or \$0.52 per share. The decrease reflects lower regulated earnings resulting from extraordinarily high gas costs early in 2001 that unfavorably impacted margins and operating costs, warmer heating weather, especially during late 2001, and a weakened national economy. This reduction was offset somewhat by increased earnings from the Energy Marketing and Services and Coal Mining Groups, both of which are components of nonregulated operations, and a decrease in nonrecurring items.

### Dividends

In November 2002, the Company's board of directors increased its quarterly dividend to \$0.275 per share from \$0.265 per share. Dividends declared for the year ended December 31, 2002 were \$1.07 per share, compared to \$1.03 per share and \$0.98 per share for the same periods in 2001 and 2000, respectively.

### Restatement of Previously Reported Results

The Company identified adjustments that, in the aggregate, reduced previously reported 2001 earnings by approximately \$10.9 million after tax, or \$0.16 per share, and other adjustments, as described below, related to 2000 and prior periods. Adjustments were also made to previously reported 2002 quarterly results. In addition to adjustments affecting previously reported net income, other reclassifications were made to the previously reported 2001 and 2000 results to conform with the 2002 presentation.

### Previously Reported 2001 and 2000 Net Income Adjustments

The Company determined that \$11.6 million (\$7.2 million after tax) of gas costs were improperly recorded as recoverable gas costs due from customers. The error related primarily to the accounting for natural gas inventory and resulted in an overstatement of 2001 earnings.

The Company also identified an accounting error related to certain employee benefit and other related costs that are routinely accumulated on the balance sheet and systematically cleared to operating expense and capital projects. Because of inadequate loading rates, these costs were not fully cleared to operating expense and capital projects in 2001. As a result, 2001 earnings were overstated by \$5.6 million (\$3.5 million after tax).

The accounting for certain wholesale power marketing contracts was modified to comply with SFAS 133, which became effective on January 1, 2001. The cumulative effect at adoption was decreased by \$2.8 million after tax. This change was offset substantially by an increase in electric margins throughout 2001.

The Company identified reconciliation errors and other errors related to the recording of estimates that were not significant, either individually or in the aggregate. As a result of these additional items, 2001 earnings were reduced by \$2.6 million (\$1.6 million after tax). Originally reflected in 2001, the correction of the year 2000 overstatement of electric revenue totaling \$2.4 million (\$1.5 million after tax), now reflected in 2000 as discussed below, significantly offset these additional items.



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The Company also determined that certain billings and collections had been improperly recorded in 2000, resulting in an understatement of gas revenue by \$1.8 million (\$1.1 million after tax) and an overstatement of electric revenue by \$2.4 million (\$1.5 million after tax). Other errors were identified that increased 2000 earnings by \$0.6 million (\$0.3 million after tax). The impact of the restatement of results for the year ended 2000 is a reduction to net income of less than \$100,000.

In addition, the Company also reduced previously reported revenues and cost of sales by \$78.1 million in 2001 and \$15.5 million in 2000 to adopt EITF Issue No. 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent" and to properly eliminate certain transactions in consolidation.

### Previously Reported 2002 Quarterly Net Income Adjustments

As previously reported, in the second quarter of 2002 the Company recorded \$5.2 million (\$3.2 million after tax) of carrying costs for DSM programs pursuant to existing IURC orders and based on an improved regulatory environment. During the audit of the three years ended December 31, 2002, management determined that the accrual of such carrying costs was more appropriate in periods prior to 2000 when DSM program expenditures were made. Therefore, such carrying costs originally reflected in 2002 quarterly results were reversed and reflected in common shareholders' equity as of January 1, 2000. In addition, the Company identified other adjustments that were not significant, either individually or in the aggregate that increased previously reported 2002 quarterly pre-tax and after tax earnings by approximately \$1.4 million and \$0.9 million after tax, respectively. The cumulative impact from of these adjustments reduced previously reported earnings for the nine months ended September 30, 2002 by approximately \$2.3 million.

### Beginning Retained Earnings Adjustments

In addition to the adjustment of DSM costs above, the Company identified other errors that were not significant, either individually or in the aggregate that relate to years prior to 2000. As a result of these additional items, beginning common shareholders' equity was reduced by \$1.5 million. Accordingly, retained earnings as of January 1, 2000 reflects a cumulative net increase of \$1.7 million.

### Other Balance Sheet Adjustments

Certain reclassifications were made to reflect separate Company prepaid and accrued taxes that result in the consolidated tax position. This adjustment added approximately \$46.4 million of prepaid and other current assets with a corresponding increase in accrued liabilities as of December 31, 2001. The Company also reclassified all previously recorded goodwill not included in rates to goodwill on the balance sheet. This adjustment resulted in a \$5.9 million decrease in other assets, a \$3.0 million decrease in prepayments and other current assets and an \$8.9 million increase in goodwill.

The Company has restated its financial statements to give effect to the matters discussed above. A summary of the significant effects of the restatement on previously reported financial position and results of operations is discussed in Note 3. The effects of the restatement on 2001 quarterly results and on 2002 previously reported quarterly information, is discussed in Note 21. The consolidated financial statements are included under Item 8 Financial Statements and Supplementary Data.

### Nonrecurring Items in 2001 and 2000

#### Merger & Integration Costs

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Merger and integration costs incurred for the years ended December 31, 2001 and 2000 were \$2.8 million and \$41.1 million, respectively. Merger and integration activities resulting from the 2000 merger were completed in 2001.

Since March 31, 2000, \$43.9 million has been expensed associated with merger and integration activities. Accruals were established at March 31, 2000 totaling \$20.7 million. Of this amount, \$5.5 million related to employee and executive severance costs, \$13.1 million related to transaction costs and regulatory filing fees incurred prior to the closing of the merger, and the remaining \$2.1 million related to employee relocations that occurred prior to or coincident with the merger closing. The remaining \$23.2 million was expensed (\$20.4 million in 2000 and \$2.8 million in 2001) for accounting fees resulting from merger-related filing requirements, consulting fees related to integration activities such as organization structure, employee travel between company locations, internal labor of employees assigned to integration teams, investor relations communication activities, and certain benefit costs.

The integration activities experienced by the Company included such things as information system consolidation, process review and definition, organization design and consolidation, and knowledge sharing.

As a result of merger integration activities, management retired certain information systems in 2001. Accordingly, the useful lives of these assets were shortened in 2000 to reflect this decision, resulting in additional depreciation expense of approximately \$9.6 million and \$11.4 million for the years ended December 31, 2001 and 2000, respectively.

In total, for the year ended December 31, 2001, merger and integration costs totaled \$12.4 million (\$8.0 million after tax), or \$0.12 on a basic earnings per share basis compared to \$52.5 million (\$36.8 million after tax), or \$0.60 on a basic earnings per share basis in 2000.

### Restructuring Costs

As part of continued cost saving efforts, in June 2001, the Company's management and board of directors approved a plan to restructure, primarily, its regulated operations. The restructuring plan included the elimination of certain administrative and supervisory positions in its utility operations and corporate office. Charges of \$11.8 million were expensed in June 2001 as a direct result of the restructuring plan. Additional charges of \$7.2 million were incurred during the remainder of 2001 primarily for consulting fees, employee relocation, and duplicate facilities costs. In total, the Company incurred restructuring charges of \$19.0 million, (\$11.8 million after tax), or \$0.18 on a basic earnings per share basis in 2001. These charges were comprised of \$10.9 million for employee severance, related benefits and other employee related costs, \$4.0 million for lease termination fees related to duplicate facilities and other facility costs, and \$4.1 million for consulting and other fees incurred through December 31, 2001. The restructuring program was completed during 2001, except for the departure of certain employees impacted by the restructuring which occurred during 2002 and the final settlement of the lease obligation which has yet to occur. (See Note 19 for further information on restructuring costs.)

### Extraordinary Loss

In June 2001, the Company sold certain leveraged lease investments with a net book value of \$59.1 million at a loss of \$12.4 million (\$7.7 million after tax), or \$0.12 on a basic earnings per share basis. Because of the transaction's significance and because the transaction occurred within two years of the effective date of the merger of Indiana Energy and SIGCORP, which was accounted for as a pooling-of-interests, APB 16 requires the loss on disposition of these investments to be treated as extraordinary. Proceeds from the sale of \$46.7

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million were used to retire short-term borrowings.

### Cumulative Effect of Change in Accounting Principle

Resulting from the adoption of SFAS 133, certain contracts in the power marketing operations and gas marketing operations that are periodically settled net were required to be recorded at market value. Previously, the Company accounted for these contracts on settlement. The cumulative impact of the adoption of SFAS 133 resulting from marking these contracts to market on January 1, 2001 was an earnings gain of approximately \$1.8 million (\$1.1 million after tax), or \$0.02 on a basic earnings per share basis, recorded as a cumulative effect of change in accounting principle in the Consolidated Statements of Income. The majority of this gain results from the Company's power marketing operations.

### Gain on Restructuring of a Nonregulated Investment

In January 2000, the Company restructured its investment in SIGECOM, LLC (SIGECOM). Affiliates of The Blackstone Group acquired a majority ownership interest in Utilicom. In connection with The Blackstone Group investment, the Company exchanged its 49% preferred equity interest in SIGECOM for \$16.5 million of convertible subordinated debt of Utilicom Networks LLC and an 18.9% common equity interest in SIGECOM Holdings, Inc, which was valued at \$6.5 million. The carrying value of the Company's 49% preferred equity interest was \$15.0 million prior to the exchange. The Company received consideration in the exchange based upon an investment bank analysis of the fair value of SIGECOM at the transaction date. The investment restructuring resulted in a pre-tax gain of \$8.0 million (\$4.9 million after tax), or \$0.08 on a basic earnings per share basis, which is classified in equity in earnings of unconsolidated affiliates in the Consolidated Statements of Income. Refer to Note 4 for more information on the Company's investment in Utilicom-related entities.

### Results of Operations by Business Segment

Following is a more detailed discussion of the results of operations of the Company's regulated and nonregulated businesses. The detailed results of operations for the regulated businesses and nonregulated businesses are discussed and analyzed before the reclassification and elimination of certain intersegment transactions necessary to consolidate those results into the Company's Consolidated Statements of Income. The operations of the Corporate and Other business segment, which include primarily information technology services, are not significant.

#### Results of Operations of the Regulated Businesses

The Company's regulated operations are comprised of its Gas Utility Services and Electric Utility Services segments. 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 west central Ohio. The Electric Utility Services segment includes the operations of SIGECO's electric transmission and distribution services, which provides electricity primarily to southwestern Indiana, and SIGECO's power generating and power marketing operations. The results of regulated operations before certain intersegment eliminations and reclassifications for the years ended December 31, 2002, 2001, and 2000 follows:

In millions, except per share amounts	2002	2001	2000
OPERATING REVENUES			(As Restated)

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Gas revenues	\$ 909.0	\$ 1,019.6	\$ 820.4
Electric revenues	608.1	381.2	334.4
-----			
Total operating revenues	1,517.1	1,400.8	1,154.8
-----			
COST OF OPERATING REVENUES			
Cost of gas	571.8	708.9	552.5
Fuel for electric generation	81.6	74.4	75.7
Purchased electric energy	296.3	86.9	36.4
-----			
Total cost of operating revenues	949.7	870.2	664.6
-----			
TOTAL OPERATING MARGIN	567.4	530.6	490.2
OPERATING EXPENSES			
Other operating	220.6	241.1	209.0
Merger & integration costs	-	2.8	32.7
Restructuring costs	-	15.0	-
Depreciation & amortization	96.8	97.2	82.4
Taxes other than income taxes	50.8	51.2	36.2
-----			
Total expenses	368.2	407.3	360.3
-----			
OPERATING INCOME	199.2	123.3	129.9
OTHER INCOME			
Other - net	6.9	5.5	4.7
Equity in earnings of unconsolidated affiliates	(1.8)	(0.5)	-
-----			
Total other income	5.1	5.0	4.7
-----			
Interest expense	66.1	70.1	46.1
-----			
INCOME BEFORE INCOME TAXES	138.2	58.2	88.5
-----			
Income tax	44.6	18.4	35.0
Preferred dividend requirement of subsidiary	-	0.8	1.0
-----			
Income before cumulative effect of change in accounting principle	93.6	39.0	52.5
Cumulative effect of change in accounting principle - net of tax	-	1.1	-
-----			
NET INCOME	\$ 93.6	\$ 40.1	\$ 52.5
=====			
BASIC EARNINGS PER SHARE	\$ 1.39	\$ 0.60	\$ 0.85
=====			

Utility operations contributed net income of \$93.6 million, or \$1.39 per share, for the year ended December 31, 2002 compared to \$40.1 million, or \$0.60 per share, in 2001. The year ended December 31, 2001 included nonrecurring merger, integration, and restructuring costs and other nonrecurring items totaling \$15.9 million after tax, or \$0.24 per share. In addition to the nonrecurring 2001 items, the increase of \$53.5 million, or \$0.79 per share, was primarily the result of improved margins and lower operating expense. These resulted from favorable weather and a return to lower gas prices and the related reduction in costs incurred in 2001. Weather increased utility earnings by an estimated \$11 million.

For 2001 compared to 2000, net income decreased \$12.4 million, or \$0.25 per share. The year ended December 31, 2000 included nonrecurring merger and

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integration costs totaling \$31.6 million, or \$0.51 per share. The decrease is due to extraordinarily high gas costs early in 2001 that unfavorably impacted margins and operating costs, including uncollectible accounts expense, interest, and excise taxes; and heating weather that was 9% warmer than the prior year.

### Significant Fluctuations

#### Utility Margin

##### Gas Utility Margin

Gas Utility margin for the year ended December 31, 2002 of \$337.2 million increased \$26.5 million, or 9%. The increase is primarily due to weather 7% cooler for the year and 31% cooler in the fourth quarter. Rate recovery of excise taxes in Ohio effective July 1, 2001, an increase in the Percent of Income Payment Plan rider affecting Ohio customers, decreased gas costs, and customer growth of over 1% also contributed. It is estimated that of the increase in gas utility margin weather contributed \$10 million, various rate recovery riders in Ohio contributed \$7 million, and other items, including the impact of lower gas costs and customer growth, contributed \$9 million. The effects of cooler weather resulted in an overall 4% increase in total throughput to 207.7 MMDth in 2002 from 199.3 MMDth in 2001. Total throughput in 2000 was 181.2 MMDth, which includes two months of throughput from the Ohio operations.

Gas Utility margin for the year ended December 31, 2001 of \$310.7 million increased \$42.8 million, compared to 2000. Excluding the Ohio operations, gas margin decreased by \$15.7 million, or 6%. The primary factors contributing to this decrease were weather that was 9% warmer than the prior year and the unfavorable impact resulting from extraordinarily high gas costs early in 2001, coupled with the effects of a weakened economy. These decreases were offset somewhat by customer growth of nearly 1% compared to 2000.

Cost of gas sold was \$571.8 million in 2002, \$708.9 million in 2001, and \$552.5 million in 2000. Cost of gas sold decreased \$137.1 million, or 19%, during 2002 compared to 2001, primarily due to a return to lower gas prices somewhat offset by an increase in retail volumes sold. Of the change in 2001 compared to 2000, the Ohio operations contributed \$179.4 million of the increase. Excluding the Ohio operations, cost of gas sold decreased \$23.0 million, or 4%, in 2001. The decrease is primarily due to lower volumes sold due to the warmer weather and a weakened economy, offset by an increase in gas prices. The total average cost per dekatherm of gas purchased was \$4.57 in 2002, \$5.83 in 2001, and \$5.60 in 2000. The price changes are due primarily to changing commodity costs in the marketplace.

##### Electric Utility Margin

Electric Utility margin by customer type and non-firm wholesale margin separated between realized margin and mark-to-market gains and losses follows:

	Year ended December 31,		
In millions	2002	2001	2000
Retail & firm wholesale	\$ 215.3	\$ 200.0	\$ 201.2
Non-firm wholesale	14.9	19.9	21.1
Total margin	\$ 230.2	\$ 219.9	\$ 222.3
Non-firm wholesale margin:			
Realized margin	\$ 18.5	\$ 18.4	\$ 21.1
Mark-to-market gains (losses)	(3.6)	1.5	-

Electric Utility margin for the year ended December 31, 2002 increased \$10.3 million, or 5%, when compared to 2001. The increases result primarily from the

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effect on retail sales of cooling weather considerably warmer than the prior year. Weather in 2002 was 27% warmer when compared to 2001 and 23% warmer than normal. In addition to weather, 2002 was positively affected by increased industrial and firm wholesale volumes and a cash return on NOx compliance expenditures as the expenditures are made pursuant to a rate recovery rider approved by the IURC in August 2001. As a result of warmer weather and increased volumes sold, retail and firm wholesale volumes sold increased from 5.8 GWh in 2001 to 6.2 GWh in 2002. Volumes sold in 2000 were 5.9 GWh. It is estimated that of the increase in electric utility margin weather contributed \$7 million, and the increased industrial and firm wholesale volumes and NOx recovery rider contributed \$8 million. The current year increase in margin from retail sales was partially offset by \$5 million in lower margins earned in the wholesale energy market.

Electric Utility margin for the year ended December 31, 2001 decreased \$2.4 million, or 1%, compared to 2000 primarily from decreased sales to firm wholesale customers and decreased margin on non-firm wholesale activity. The decreases were partially offset by a 3% increase in residential and commercial sales due to cooling weather 7% warmer than the prior year and a 3% increase in the number of residential and commercial customers.

Periodically, generation capacity is in excess of that needed to serve retail and firm wholesale customers. The Company markets this unutilized capacity to optimize the return on its owned generation assets. The contracts entered into are primarily short-term purchase and sale transactions that expose the Company to limited market risk. While volumes both sold and purchased in the wholesale market have increased during 2002, margins softened as a result of reduced price volatility. As a result of increased activity offset by reduced price volatility, margin from power marketing activities decreased \$5.0 million during 2002 and \$1.2 million during 2001. In 2002, volumes sold into the wholesale market were 10.7 GWh compared to 3.4 GWh in 2001 and 1.6 GWh in 2000. Volumes purchased from the wholesale market, some of which were utilized to serve retail and firm wholesale customers, were 10.3 GWh in 2002 compared to 2.9 GWh in 2001 and 1.2 GWh in 2000.

### Utility Operating Expenses

#### Utility Other Operating

Utility other operating expenses decreased \$20.5 million for the year ended December 31, 2002 when compared to 2001. The decrease results primarily from \$9.6 million in lower charges for the use of corporate assets which had useful lives shortened as a result of the merger and a return to lower gas prices and the related reduction in costs incurred in 2001. Specific expenses affected by increased gas costs in 2001 were uncollectible accounts expense of \$3.4 million and contributions to low income heating assistance programs of \$2.0 million. Insurance recovery in 2002 of \$2.8 million in maintenance costs incurred in 2001 was the primary component of the remaining decrease.

Excluding \$33.2 million in additional expenses related to the Ohio operations, utility other operating expenses for the year ended December 31, 2001 decreased \$1.1 million compared to 2000. The 2001 decrease results primarily from prior merger synergies, offset by higher expenses resulting from increased gas costs.

#### Utility Depreciation & Amortization

Utility depreciation and amortization decreased \$0.4 million for the year ended December 31, 2002 when compared to 2001. The decrease results from the discontinuance of goodwill amortization as required by SFAS 142, which approximated \$4.9 million in 2001, offset somewhat by depreciation of plant additions.

Utility depreciation and amortization increased \$14.8 million in 2001 when compared to 2000. The increase is due to the inclusion of the Ohio operations

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and depreciation of normal utility plant additions at Indiana Gas and SIGECO. For the year ended December 31, 2001, the increase in utility depreciation and amortization related to the Ohio operations was \$12.9 million, including amortization of goodwill of \$4.9 million.

### Utility Taxes Other Than Income Taxes

Utility taxes other than income taxes decreased \$0.4 million in 2002 compared to 2001 as a result of lower revenues subject to gross receipts tax and increased \$15.0 million in 2001 compared to 2000. The year ended December 31, 2001 includes \$15.3 million of additional expense related to the Ohio operations, primarily state excise tax.

### Utility Other Income - Net

#### Other- net

Utility other income, net increased \$1.4 million in 2002 when compared to 2001 and amounts in 2001 were comparable to 2000. The increase in 2002 is primarily attributable to gains recognized from the sale of excess emission allowances.

### Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates decreased \$1.3 million in 2002 and \$0.5 million in 2001 principally due to increased losses and increased ownership in a company that manufactures autoclaved aerated concrete products from fly ash.

### Utility Interest Expense

Utility interest expense decreased \$4.0 million in 2002 compared to 2001. The decrease is attributable to lower outstanding borrowings during 2002 and lower average interest rates on adjustable rate debt.

Utility interest expense increased \$24.0 million during the 2001 compared to 2000. The increase is due primarily to interest related to financing the acquisition of the Ohio operations and increased working capital requirements resulting from higher natural gas prices.

### Utility Income Tax

Federal and state income taxes related to utility operations increased \$26.2 million for the year ended December 31, 2002 when compared to 2001. The increase results principally from higher pre-tax earnings. The effective tax rate increased from 31.6% in 2001 to 32.3% in 2002 due to amortization of investment tax credits and higher pre-tax income.

Federal and state income taxes related to utility operations decreased \$16.6 million in 2001 when compared to 2000. The 2001 decrease is due to lower pre-tax earnings. The effective tax rate decreased from 39.5% in 2000 to 31.6% in 2001. This decrease results primarily from the nondeductibility of certain merger and integration costs incurred in 2000 and amortization of investment tax credits.

### 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 generally and may in the future reduce earnings from retail electric and gas sales. Currently, several states, including Ohio, have passed legislation allowing 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 allows gas customers to choose their commodity supplier. The Company implemented a choice program for its gas

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customers in Ohio in January 2003. Indiana has not adopted any regulation requiring gas choice; however, the Company operates under approved tariffs permitting large volume customers to choose their commodity supplier.

### Other Operating Matters

#### Midwest Independent System Operator

The FERC approved the Midwest Independent System Operator (MISO) as the nation's first regional transmission organization. Regional transmission organizations place public utility transmission facilities in a region under common control. The FERC has made regional transmission organizations a top priority to boost competition and to provide more reliable power at lower rates. The Carmel, Indiana, based MISO began some operations in December 2001 with control of 73,000 miles of transmission lines carrying up to 81,000 MW. More than 20 states are included in the MISO from the Midwest and Plains states, to Texas, Arkansas, and part of the Southeast. In December 2001, the IURC approved the Company's request for authority to transfer operational control over its electric transmission facilities to the MISO. That transfer occurred on February 1, 2002.

Issues pertaining to certain of MISO's tariff charges for its services remain to be determined by the FERC. Given the outstanding tariff issues, as well as the potential for additional growth in MISO participation, the Company is unable to determine the future impact MISO participation may have on its operations. Pursuant to an order from the IURC, certain MISO costs are deferred for future recovery.

As a result of MISO's operational control over much of the Midwestern electric transmission grid, including SIGECO's transmission facilities, SIGECO's continued ability to import power, when necessary, may be impacted. Given the nature of MISO's policies regarding use of transmission facilities, as well as ongoing FERC initiatives, it is difficult to predict the impact on operational reliability. The potential need to expend capital for improvements to the transmission system, both to SIGECO's facilities as well as to those facilities of adjacent utilities, over the next several years will become more predictable as MISO completes studies related to regional transmission planning and improvements. Such expenditures may be significant.

### Environmental Matters

The Company 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 (SO<sub>2</sub>), and nitrogen oxides (NO<sub>x</sub>). 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 to comply with.

### Clean Air Act

#### NO<sub>x</sub> SIP Call Matter

The Clean Air Act (the Act) requires each state to adopt a State Implementation Plan (SIP) to attain and maintain National Ambient Air Quality Standards (NAAQS)



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for a number of pollutants, including ozone. If the USEPA finds a state's SIP inadequate to achieve the NAAQS, the USEPA can call upon the state to revise its SIP (a SIP Call).

In October 1998, the USEPA issued a final rule "Finding of Significant Contribution and Rulemaking for Certain States in the Ozone Transport Assessment Group Region for Purposes of Reducing Regional Transport of Ozone," (63 Fed. Reg. 57355). This ruling found that the SIP's of certain states, including Indiana, were substantially inadequate since they allowed for NOx emissions in amounts that contributed to non-attainment with the ozone NAAQS in downwind states. The USEPA required each state to revise its SIP to provide for further NOx emission reductions. The NOx emissions budget, as stipulated in the USEPA's final ruling, requires a 31% reduction in total NOx emissions from Indiana.

In June 2001, the Indiana Air Pollution Control Board adopted final rules to achieve the NOx emission reductions required by the NOx SIP Call. Indiana's SIP requires the Company to lower its system-wide NOx emissions to .14 lbs./MMBTU by May 31, 2004 (the compliance date). This is a 65% reduction from emission levels existing in 1999 and 1998.

The Company has initiated steps toward compliance with the revised regulations. These steps include installing Selective Catalytic Reduction (SCR) systems at Culley Generating Station Unit 3 (Culley), Warrick Generating Station Unit 4, and A.B. Brown Generating Station Units 1 and 2. SCR systems reduce flue gas NOx emissions to atmospheric nitrogen and water using ammonia in a chemical reaction. This technology is known to be the most effective method of reducing NOx emissions where high removal efficiencies are required.

On August 28, 2001, the IURC issued an order that (1) approved the Company's proposed project to achieve environmental compliance by investing in clean coal technology, (2) approved the Company's initial cost estimate of \$198 million for the construction, subject to periodic review of the actual costs incurred, and (3) approved a mechanism whereby, prior to an electric base rate case, the Company may recover through a rider that is updated every six months a return on its capital costs for the project, at its overall cost of capital, including a return on equity. The first rider adjustment for ongoing cost recovery was approved by the IURC on February 6, 2002. Based on the level of system-wide emissions reductions required and the control technology utilized to achieve the reductions, the current estimated clean coal technology construction cost ranges from \$240 million to \$250 million and is expected to be expended during the 2001-2006 period. Through December 31, 2002, \$70.0 million has been expended.

On June 5, 2002, the Company filed a new proceeding to update the NOx project cost and to obtain approval of a second rider authorizing ongoing recovery of depreciation and operating costs related to the clean coal technology. After the equipment is installed and operational, related annual operating expenses, including depreciation expense, are estimated to be between \$24 million and \$27 million. Such expenses would commence in 2004 when the technology becomes operational. On January 3, 2003, the IURC approved a settlement that authorizes total capital cost investment for this project up to \$244 million (excluding AFUDC) and recovery on those capital costs, as well as the recovery of future operating costs, including depreciation and purchased emission allowances, through a rider mechanism. The settlement establishes a fixed return of 8 percent on the capital investment, which approximates the return authorized in the Company's last electric rate case in 1995.

The Company expects to achieve timely compliance as a result of the project. Construction of the first SCR at Culley is nearing completion on schedule, and installation of SCR technology as planned is expected to reduce the Company's overall NOx emissions to levels compliant with Indiana's NOx emissions budget allotted by the USEPA. Therefore, the Company has recorded no accrual for potential penalties that may result from noncompliance.

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### Culley Generating Station Litigation

In the late 1990's, the USEPA initiated an investigation under Section 114 of the Act of SIGECO's coal-fired electric generating units in commercial operation by 1977 to determine compliance with environmental permitting requirements related to repairs, maintenance, modifications, and operations changes. The focus of the investigation was to determine whether new source review permitting requirements were triggered by such plant modifications, and whether the best available control technology was, or should have been used. Numerous electric utilities were, and are currently, being investigated by the USEPA under an industry-wide review for compliance. In July 1999, SIGECO received a letter from the Office of Enforcement and Compliance Assurance of the USEPA discussing the industry-wide investigation, vaguely referring to an investigation of SIGECO and inviting SIGECO to participate in a discussion of the issues. No specifics were noted; furthermore, the letter stated that the communication was not intended to serve as a notice of violation. Subsequent meetings were conducted in September and October 1999 with the USEPA and targeted utilities, including SIGECO, regarding potential remedies to the USEPA's general allegations.

On November 3, 1999, the USEPA filed a lawsuit against seven utilities, including SIGECO. SIGECO's suit is pending in the U.S. District Court for the Southern District of Indiana. The USEPA alleges that, beginning in 1992, SIGECO violated the Act by (1) making modifications to its Culley Generating Station in Yankeetown, Indiana without obtaining required permits (2) making major modifications to the Culley Generating Station without installing the best available emission control technology and (3) failing to notify the USEPA of the modifications. In addition, the lawsuit alleges that the modifications to the Culley Generating Station required SIGECO to begin complying with federal new source performance standards at its Culley Unit 3.

SIGECO believes it performed only maintenance, repair, and replacement activities at the Culley Generating Station, as allowed under the Act. Because proper maintenance does not require permits, application of the best available control technology, notice to the USEPA, or compliance with new source performance standards, SIGECO believes that the lawsuit is without merit, and intends to vigorously defend itself. Since the filing of this lawsuit, the USEPA has voluntarily dismissed a majority of the claims brought in its original complaint. In its original complaint, USEPA alleged significant emissions increases of three pollutants for each of four maintenance projects. Currently, USEPA is alleging only significant emission increases of a single pollutant at three of the four maintenance projects cited in the original complaint.

The lawsuit seeks fines against SIGECO in the amount of \$27,500 per day per violation. However, on July 29, 2002, the Court ruled that USEPA could not seek civil penalties for two of the three remaining projects at issue in the litigation, significantly reducing potential civil penalty exposure. The lawsuit also seeks a court order requiring SIGECO to install the best available emissions technology at the Culley Generating Station. If the USEPA were successful in obtaining an order, SIGECO estimates that in response it could incur capital costs of approximately \$20 million to \$40 million to comply with the order. Trial is currently set to begin July 14, 2003.

The USEPA has also issued an administrative notice of violation to SIGECO making the same allegations, but alleging that violations began in 1977.

While it is possible that SIGECO could be subjected to criminal penalties if the Culley Generating Station continues to operate without complying with the permitting requirements of new source review and the allegations are determined by a court to be valid, SIGECO believes such penalties are unlikely as the USEPA and the electric utility industry have a bonafide dispute over the proper interpretation of the Act. Accordingly, the Company has recorded no accrual, and the plant continues to operate while the matter is being decided.

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### Information Request

On January 23, 2001, SIGECO received an information request from the USEPA under Section 114 of the Act for historical operational information on the Warrick and A.B. Brown generating stations. SIGECO has provided all information requested, and no further action has occurred.

### Manufactured Gas Plants

In the past, Indiana Gas and others operated facilities for the manufacture of gas. Given the availability of natural gas transported by pipelines, these facilities have not been operated for many years. Under currently applicable environmental laws and regulations, Indiana Gas and others may now be required to take remedial action if certain byproducts are found above the regulatory thresholds at these sites.

Indiana Gas has identified the existence, location, and certain general characteristics of 26 gas manufacturing and storage sites for which it may have some remedial responsibility. Indiana Gas has completed a remedial investigation/feasibility study (RI/FS) at one of the sites under an agreed order between Indiana Gas and the IDEM, and a Record of Decision was issued by the IDEM in January 2000. Although Indiana Gas has not begun an RI/FS at additional sites, Indiana Gas has submitted several of the sites to the IDEM's Voluntary Remediation Program and is currently conducting some level of remedial activities including groundwater monitoring at certain sites where deemed appropriate and will continue remedial activities at the sites as appropriate and necessary.

In conjunction with data compiled by environmental consultants, Indiana Gas has accrued the estimated costs for further investigation, remediation, groundwater monitoring, and related costs for the sites. While the total costs that may be incurred in connection with addressing these sites cannot be determined at this time, Indiana Gas has recorded costs that it reasonably expects to incur totaling approximately \$20.4 million.

The estimated accrued costs are limited to Indiana Gas' proportionate share of the remediation efforts. Indiana Gas has arrangements in place for 19 of the 26 sites with other potentially responsible parties (PRP), which serve to limit Indiana Gas' share of response costs at these 19 sites to between 20% and 50%.

With respect to insurance coverage, Indiana Gas has received and recorded settlements from all known insurance carriers in an aggregate amount approximating \$20.4 million.

Environmental matters related to manufactured gas plants have had no material impact on earnings since costs recorded to date approximate PRP and insurance settlement recoveries. While Indiana Gas has recorded all costs which it presently expects to incur in connection with activities at these sites, it is possible that future events may require some level of additional remedial activities which are not presently foreseen.

In October 2002, the Company received a formal information request letter from the IDEM regarding five manufactured gas plants owned and/or operated by SIGECO and not currently enrolled in the IDEM's Voluntary Remediation Program. In response, SIGECO submitted to the IDEM the results of preliminary site investigations conducted in the mid-1990's. These site investigations confirmed that based upon the conditions known at the time, the sites posed no risk to human health or the environment. Follow up reviews have recently been initiated by the Company to confirm that the sites continue to pose no such risk.

### Rate and Regulatory Matters

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Gas and electric operations with regard to retail rates and charges, terms of service, accounting matters, issuance of securities, and certain other operational matters specific to its Indiana customers are regulated by IURC. The retail gas operations of the Ohio operations are subject to regulation by the PUCO. Changes in prices for fuel for electric generation and purchased power are determined primarily by energy markets.

### Gas Costs Proceedings

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 the IURC. Similar adjustments 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. GCA and GCR procedures involve scheduled quarterly filings and IURC and PUCO hearings to establish the amount of price adjustments for a designated future quarter. The procedures also provide for inclusion in later quarters any variances between the estimated cost of gas and actual costs incurred. 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 GCA procedures to reduce rates when necessary to limit net operating income to a level authorized in its last general rate order through the application of an earnings test. Recovery of gas costs is not allowed to the extent that net operating income for the longer of (1) a 60-month period, including the twelve-month period provided in a gas cost adjustment filing, or (2) the date of the last order establishing base rates and charges exceeds the total net operating income authorized by the IURC. For the recent past, 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.

Rate structures for gas delivery operations do not include weather normalization-type clauses that authorize the utility to recover gross margin on sales established in its last general rate case, regardless of actual weather patterns.

Commodity prices for natural gas purchases were significantly higher during the 2000 - 2001 heating season, primarily due to colder temperatures, increased demand and tighter supplies. Subject to compliance with applicable state laws, the Company's utility subsidiaries are allowed full recovery of such changes in purchased gas costs from their retail customers through these commission-approved gas cost adjustment mechanisms, and margin on gas sales should not be impacted. However, in 2001, the Company's utility subsidiaries experienced higher working capital requirements, increased expenses including unrecoverable interest costs, uncollectible accounts expense, and unaccounted for gas and some level of price sensitive reduction in volumes sold.

In March 2001, Indiana Gas and SIGECO reached agreement with the OUCC and the Citizens Action Coalition of Indiana, Inc. (CAC) regarding the matters raised by an IURC Order that disallowed \$3.8 million of Indiana Gas' gas procurement costs for the 2000 - 2001 heating season which was recognized during the year ended December 31, 2000. As part of the agreement, the companies agreed to contribute an additional \$1.7 million to assist qualified low income gas customers, and Indiana Gas agreed to credit \$3.3 million of the \$3.8 million disallowed amount to its customers' April 2001 utility bills in exchange for both the OUCC and the CAC dropping their appeals of the IURC Order. In April 2001, the IURC issued an order approving the settlement. Substantially all of the financial assistance for low income gas customers was distributed in 2001.

For additional information on regulatory matters affecting the utilities, refer to Nonregulated Section's discussion of transactions with ProLiance.

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### Fuel & Purchased Power Costs

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 the estimated cost of fuel and purchased power and actual costs incurred. The order provides that any over-or-under-recovery 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 similar to the test restricting gas cost recovery is the principal restriction to recovery of fuel cost increases. This 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.

As a result of an appeal of a generic order issued by the IURC in August 1999 regarding guidelines for the recovery of purchased power costs, SIGECO entered into a settlement agreement with the OUCG that provides certain terms with respect to the recoverability of such costs. The settlement, originally approved by the IURC in August 2000, has been extended by agreement through March 2003, and discussions regarding further extension of the settlement term are ongoing. Under the settlement, SIGECO can recover the entire cost of purchased power up to an established benchmark, and during forced outages, SIGECO will bear a limited share of its purchased power costs regardless of the market costs at that time. Based on this agreement, SIGECO believes it has limited its exposure to unrecoverable purchased power costs.

### Results of Operations of the Nonregulated Businesses

The Company is involved in nonregulated activities in four primary business areas: Energy Marketing and Services, Coal Mining, Utility Infrastructure Services, and Broadband. Energy Marketing and Services markets natural gas and provides energy management, including energy performance contracting services. Coal Mining mines and sells coal to the Company's utility operations and to other parties and generates IRS Code Section 29 investment tax credits relating to the production of coal-based synthetic fuels. Utility Infrastructure Services provides underground construction and repair, facilities locating, and meter reading services. Broadband invests in broadband communication services such as analog and digital cable television, high-speed Internet and data services, and advanced local and long distance phone services. In addition, the nonregulated group has investments in other businesses that invest in energy-related opportunities and provides utility services, municipal broadband consulting, retail, and real estate and leveraged leases. The results of nonregulated operations for the years ended December 31, 2002, 2001, and 2000 follows:

In millions, except per share amounts	2002	2001	2000
		(As Restated)	
Energy services & other revenues	\$ 287.2	\$ 681.0	\$ 478.0
Cost of energy services & other revenues	249.4	640.9	453.2

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TOTAL OPERATING MARGIN	37.8	40.1	24.8
Intersegment revenues, net of costs	3.0	2.6	1.9
Expenses:			
Operating expenses	36.1	36.3	20.3
Merger & integration costs	-	-	1.6
Restructuring costs	-	3.5	-
-----			
Total expenses	36.1	39.8	21.9
-----			
OPERATING INCOME	4.7	2.9	4.8
Other income:			
Equity in earnings of unconsolidated affiliates	10.9	13.9	9.8
Other - net	6.1	11.4	18.5
-----			
Total other income	17.0	25.3	28.3
-----			
Interest expense	9.1	12.5	9.6
-----			
INCOME BEFORE TAXES	12.6	15.7	23.5
Income tax	(6.9)	(4.7)	0.6
Minority interest	0.5	0.6	1.1
-----			
Income before extraordinary loss	19.0	19.8	21.8
Extraordinary loss - net of tax	-	(7.7)	-
-----			
NET INCOME	\$ 19.0	\$ 12.1	\$ 21.8
=====			
BASIC EARNINGS PER SHARE	\$ 0.28	\$ 0.18	\$ 0.36
=====			
NET INCOME ATTRIBUTED TO:			
Energy Marketing & Services	\$ 15.0	\$ 11.3	\$ 7.2
Coal Mining	12.2	13.6	4.6
Utility Infrastructure	(1.2)	(0.6)	0.2
Broadband	0.4	(0.1)	4.4
Other Businesses	(7.4)	(12.1)	5.4

For the year ended December 31, 2002, earnings from nonregulated operations increased \$6.9 million, or \$0.10 per share, when compared to 2001. The increase is primarily due to increased earnings from Energy Marketing and Services and a smaller loss incurred by the Company's broadband consulting operations which are part of the Other Businesses Group. The year ended December 31, 2001 included \$2.2 million after tax, or \$0.04 per share, in nonrecurring restructuring costs and \$7.7 million after tax, or \$0.12 per share, related to an extraordinary loss from the divestiture of certain assets. In addition, 2001 benefited from gains recognized upon sale of investments by an unconsolidated affiliate in the first and third quarters, and 2002 was negatively affected by a change in Indiana corporate income tax laws enacted in June 2002, which required the recalculation of deferred tax obligations and earnings from leveraged lease investments at the date of enactment of the law.

For 2001 compared to 2000, net income decreased \$9.7 million due primarily to nonrecurring items incurred in 2001 and 2000. Nonrecurring items in 2000 added earnings of \$3.9 million, or \$0.06 per share, and included a gain from restructuring the Company's investment in SIGECOM, offset by merger and integration costs. Before nonrecurring items, 2001 earnings increased \$4.1 million primarily due to expanded natural gas marketing and coal mining operations, partially offset by losses incurred by the Company's broadband consulting operations.

Energy Marketing & Services

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Energy Marketing and Services includes the Company's investment in ProLiance, a nonregulated energy marketing affiliate of Vectren and Citizens Gas and Coke Utility (Citizens Gas). ProLiance provides natural gas and related services to Indiana Gas, the Ohio operations, Citizens Gas, and others and also began providing service to SIGECO and Vectren Retail, LLC (the Company's retail gas marketer) in 2002. ProLiance's primary business is optimizing the gas portfolios of utilities and providing services to large end use customers. In addition, Energy Marketing and Services includes the operations of Energy Systems Group, LLC (ESG), which provides energy performance contracting and facility upgrades through its design and installation of energy-efficient equipment. ESG is a consolidated venture between the Company and Citizens Gas, with the Company owning two-thirds. ESG had no significant impact on the Company's financial results in 2002, 2001, or 2000.

In June 2002, the integration of Vectren's wholly owned subsidiary SIGCORP Energy Services, LLC (SES) with ProLiance was completed. SES provided natural gas and related services to SIGECO and others prior to the integration. In exchange for the contribution of SES' net assets totaling \$19.2 million, including cash of \$2.0 million, Vectren's allocable share of ProLiance's profits and losses increased from 52.5% to 61%, consistent with Vectren's new ownership percentage. In March 2001 Vectren's allocable share of profits and losses increased from 50% to 52.5% when ProLiance began managing the Ohio operations' gas portfolio. Governance and voting rights remain at 50% for each member. Since governance of ProLiance remains equal between the members, Vectren continues to account for its investment in ProLiance using the equity method of accounting.

Prior to June 1, 2002, SES' operating results were consolidated. Subsequent to June 1, 2002, SES' operating results, now part of ProLiance, are reflected in equity in earnings of unconsolidated affiliates. SES' revenues and expenses were the primary component of nonregulated revenues and cost of revenues. Therefore, the integration significantly decreased revenues and costs of revenues over \$400 million in 2002 compared to 2001. The Company's operating expenses also decreased \$4.8 million in 2002 as a result of the integration. The transfer of net assets was accounted for at book value consistent with joint venture accounting and did not result in any gain or loss.

Pre-tax income of \$19.1 million, \$12.8 million and \$5.4 million was recognized as ProLiance's contribution to earnings for the years ended December 31, 2002, 2001, and 2000, respectively. Pre-tax earnings have increased primarily as a result of increased operations at ProLiance and the Company's increased ownership. Earnings recognized from ProLiance are included in equity in earnings of unconsolidated affiliates.

In 2001 compared to 2000, the significant increase in the Company's nonregulated revenues and costs of revenues was primarily attributable to SES' operations reflecting higher prices for natural gas and increased volumes. SES' increased activity was also a contributing factor to the increase in 2001 margin and operating expenses when compared to 2000.

### Regulatory Matters

The sale of gas and provision of other services to Indiana Gas and SIGECO by ProLiance is subject to regulatory review through the quarterly gas cost adjustment (GCA) process administered by the IURC. The sale of gas and provision of other services to the Ohio operations by ProLiance is subject to regulatory review through the quarterly gas cost recovery (GCR) and audit process administered by the PUCO.

Specific to the sale of gas and provision of other services to Indiana Gas by ProLiance, on September 12, 1997, the IURC issued a decision finding the gas supply and portfolio administration agreements between ProLiance and Indiana Gas

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and ProLiance and Citizens Gas to be consistent with the public interest and that ProLiance is not subject to regulation by the IURC as a public utility. However, with respect to the pricing of gas commodity purchased from ProLiance, the price paid by ProLiance to the utilities for the prospect of using pipeline entitlements if and when they are not required to serve the utilities' firm customers, and the pricing of fees paid by the utilities to ProLiance for portfolio administration services, the IURC concluded that additional review in the GCA process would be appropriate and directed that these matters be considered further in a consolidated GCA proceeding involving Indiana Gas and Citizens Gas.

On June 4, 2002, Indiana Gas and Citizens Gas, together with the OUCC and other consumer parties, entered into and filed with the IURC a settlement setting forth the terms for resolution of all pending regulatory issues related to ProLiance, including the three pricing issues. On July 23, 2002, the IURC approved the settlement filed by the parties. The GCA proceeding has been concluded and new supply agreements between Indiana Gas, SIGECO, Citizens Gas, and ProLiance have been approved and extended through March 31, 2007. ProLiance will also have the opportunity, if it so elects, to participate in a "request for proposal" process for service to the utilities after March 31, 2007.

For past services provided to Indiana Gas by ProLiance, the Company made refunds to Indiana Gas' retail customers pursuant to the settlement totaling \$6.4 million and reimbursed other costs to parties involved in the settlement totaling \$1.1 million. Payments were made in the fourth quarter of 2002. At December 31, 2001, the Company had established a reserve specific to this GCA proceeding totaling \$5.2 million which was recorded throughout the GCA proceeding as a reduction of ProLiance's contribution to the Company's earnings. The amount of the settlement in excess of that accrued prior to 2002 totaling \$2.3 million was reflected as a reduction of ProLiance's contribution to earnings in 2002.

In addition to the above, the IURC order also provides that:

- o A portion of the utilities' natural gas will be purchased through a gas cost incentive mechanism that shares price risk and reward between the utilities and customers;
- o Beginning in 2004, ProLiance will provide the utilities with an interstate pipeline transport and storage service price discount, thus providing additional savings to customers;
- o As ProLiance continues to provide the utilities with its supply services, Citizens Gas and Vectren will together annually provide an additional \$2 million per year in customer benefits in 2003, 2004, and 2005.

### Coal Mining

Coal Mining provides the mining and sale of coal to the Company's utility operations and to other third parties through its wholly owned subsidiary Vectren Fuels, Inc (Fuels). The group also generates IRS Code Section 29 investment tax credits relating to the production of coal-based synthetic fuels through its investment in Pace Carbon Synfuels, LP (Pace Carbon). Pace Carbon is an unconsolidated affiliate accounted for using the equity method.

Earnings from Fuels were \$6.2 million in 2002, \$9.3 million in 2001, and \$2.5 million in 2000. In 2002 compared to 2001, net income and operating income decreased \$3.3 million and \$4.9 million, respectively, as a result of lower market prices on third party coal sales and a somewhat lower yield per ton mined in 2002. In 2001 compared to 2000, net income and operating income increased \$7.0 million and \$11.1 million, respectively, as a result of the Company's second mine starting operations in mid-2001. The new mine was also a contributing factor to increased operating expenses in 2002 and 2001. Fuels' operating expenses increased \$0.8 million in 2002 and \$6.9 million in 2001.



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The investment in Pace Carbon resulted in losses reflected in equity in earnings of unconsolidated affiliates totaling \$6.8 million, \$4.5 million, and \$2.4 million in 2002, 2001, and 2000, respectively. Losses have increased as a result of increased production of synthetic fuels and higher production costs. The production of synthetic fuel generates IRS Code Section 29 investment tax credits that are reflected in income taxes. These credits have also increased in recent years consistent with increased synthetic fuel production. Net income, including the losses, tax benefits, and tax credits, generated from the investment in Pace Carbon totaled \$6.0 million in 2002, \$4.3 million in 2001, and \$2.1 million in 2000.

### Utility Infrastructure Services

Utility Infrastructure Services provides underground construction and repair of utility infrastructure services to the Company and to other gas, water, electric, and telecommunications companies as well as facilities locating and meter reading services through its investment in Reliant Services, LLC (Reliant). Reliant is a 50% owned strategic alliance with an affiliate of Cinergy Corp. and is accounted for using the equity method of accounting. The investment in Reliant had no significant impact on the Company's results in 2002, 2001, or 2000.

### Broadband

Broadband invests in broadband communication services such as cable television, high-speed Internet, and advanced local and long distance phone services. The Company has a minority interest and a convertible subordinated debt investment in Utilicom Networks, LLC (Utilicom). Utilicom is a provider of bundled communication services focusing on last mile delivery to residential and commercial customers. The Company also has a minority interest in SIGECOM Holdings, Inc. (Holdings), which was formed by Utilicom to hold interests in SIGECOM, LLC (SIGECOM). SIGECOM provides broadband services to the greater Evansville, Indiana, area.

The equity investments in Utilicom and Holdings are accounted for using the cost method of accounting. As a result, Broadband had no significant impact on the Company's financial results with the exception of the one-time gain recorded in 2000 upon the restructuring of the Company's investment in SIGECOM previously discussed. The \$4.9 million gain is included in equity in earnings of unconsolidated affiliates.

Utilicom also plans to provide broadband services to the greater Indianapolis, Indiana, and Dayton, Ohio, markets. However, the funding of these projects has been delayed due to the continued difficult environment within the telecommunication capital markets, which has prevented Utilicom from obtaining debt financing on terms it considers acceptable. While the existing investors remain interested in the Indianapolis and Dayton projects, the Company is not required to make further investments and does not intend to proceed unless commitments are obtained to fully fund these projects. Franchising agreements have been extended in both locations.

### Other Businesses

The Other Businesses Group includes a variety of wholly owned operations and investments. The significant activities that affected the nonregulated results of operations during 2002, 2001, and 2000 are the wholly owned operations of Vectren Communication Services, Inc. (VCS), Vectren Retail LLC (Vectren Retail), and Southern Indiana Properties, Inc. (SIPI) and the Company's investment in the Haddington partnerships (Haddington), which are accounted for using the equity method of accounting.

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VCS is a wholly owned broadband consulting company that incurred charges in 2002 and 2001 related to the settlement of construction contracts and the reorganization of its operations, allowing it to focus on consulting services. As a result, VCS incurred net losses of \$2.8 million in 2002 and \$8.0 million in 2001 compared to net income of \$0.2 million in 2000. The majority of the costs incurred in 2001 and 2002 are included in cost of energy services and other revenues and are therefore a component of the change in margin in 2002 compared to 2001 and 2001 compared to 2000.

Vectren Retail provides natural gas and other related products and services primarily in Ohio serving customers opting for choice among energy providers. Vectren Retail began operations in 2001 and has incurred startup costs which increased operating expenses \$1.5 million in 2002 and \$0.9 million in 2001. Due to increased activity, these operations added margin of \$1.3 million in 2002 compared to 2001.

SIPI has various investments in leveraged leases, notes receivable, and unconsolidated affiliates. The Company divested of notes receivable and leveraged lease investments in the second and fourth quarters of 2001. These divestitures resulted in the \$7.7 million extraordinary loss previously discussed and less leveraged lease and interest income in 2002 compared to 2001 and in 2001 compared to 2000. The decrease in leveraged lease and interest income is the primary contributing factor to the change in other-net in 2002 and 2001. The dispositions of these assets generated cash flow of approximately \$67 million.

The Haddington partnerships are equity method investments that invest in energy-related opportunities. During 2001, these partnerships sold investments resulting in gains reflected by the Company totaling \$6.2 million. Such gains are included in equity in earnings of unconsolidated affiliates. The most significant portion of these earnings was derived from Haddington's sale of Bear Paw Investments, LLC (Bear Paw). In March 2001, Haddington sold its investment in Bear Paw in exchange for a combination of cash and securities. The cost of Haddington's Bear Paw investment approximated \$5.1 million, and the net proceeds received totaled \$18.1 million, resulting in a gain of \$13.0 million. The Company recognized its portion of the pre-tax gain totaling \$3.9 million in March 2001. Later in 2001 as the securities received were sold, the Company recognized its portion of the additional earnings totaling \$1.0 million.

### Critical Accounting Policies

Management is required to make judgements, assumptions, and estimates that affect the amounts reported in the consolidated financial statements and the related disclosures that conform to accounting principles generally accepted in the United States. Note 2 to the consolidated financial statements describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. Certain estimates used in the financial statements are subjective and use variables that require judgement. These include the estimates to perform goodwill and other asset impairments tests and to determine pension and postretirement benefit obligations. The Company makes other estimates in the course of accounting for unbilled revenue and the effects of regulation that are critical to the Company's financial results but that are less likely to be impacted by near term changes. Other estimates that significantly affect the Company's results, but are not necessarily critical to operations, include depreciation of utility and non-utility plant, the valuation of derivative contracts, and the allowance for doubtful accounts, among others. Actual results could differ from these estimates.

### Impairment Review of Investments

The Company has investments in notes receivable, entities accounted for using the cost method of accounting, and entities accounted for using the equity

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method of accounting. On a periodic basis and when events occur that may cause one of these investments to be impaired, the Company performs an impairment analysis. An impairment analysis of notes receivable usually involves the comparison of the investment's estimated free cash flows to the stated terms of the note, or for notes that are collateral dependent, a comparison of the collateral's fair value to the carrying amount of the note. An impairment analysis of cost method and equity method investments involves comparison of the investment's estimated fair value to its carrying amount. Fair value is estimated using market comparisons, appraisals, and/or discounted cash flow analyses. Calculating free cash flows and fair value using the above methods is subjective and requires significant judgement in growth assumptions, longevity of cash flows, and discount rates (for fair value calculations).

During 2002, the Company performed an impairment analysis on its Utilicom-related investments. The Company used market comparisons to estimate fair value for the cost method portion of the Utilicom investment and a free cash flow analysis to estimate fair value for the note receivable portion of the Utilicom investment. No impairment charge was recorded as a result of these tests. However, a 10% decrease in the fair value that was estimated using market comparables would have resulted in a \$0.3 million impairment charge to the cost method investment. A 10% decrease in the cash flow growth assumption utilized to calculate Utilicom's free cash flows would have resulted in no impairment charge to the notes receivable.

Impairment tests on other investments were also conducted using appraisals and discounted cash flow models to estimate fair value. No impairment charges resulted from these analyses. For the other impairment tests performed during 2002, a 10% adverse change in the calculated or appraised fair value of collateral or a 100 basis point adverse change in the discount rate used to estimate fair value would have resulted in a \$2.6 million impairment charge.

### Goodwill

Pursuant to SFAS No. 142, the Company performed an initial impairment analysis of its goodwill, all of which resides in the Gas Utility Services operating segment. Also consistent with SFAS 142, goodwill is tested for impairment annually at the beginning of the year and more frequently if events or circumstances indicate that an impairment loss has been incurred. Impairment tests are performed at the reporting unit level which the Company has determined to be consistent with its Gas Utility Services operating segment as identified in Note 18 to the consolidated financial statements. An impairment test performed in accordance with SFAS 142 requires that a reporting unit's fair value be estimated. The Company used a discounted cash flow model to estimate the fair value of its Gas Utility Services operating segment, and that estimated fair value was compared to its carrying amount, including goodwill. The estimated fair value was in excess of the carrying amount and therefore resulted in no impairment.

Estimating fair value using a discounted cash flow model is subjective and requires significant judgement in applying a discount rate, growth assumptions, company expense allocations, and longevity of cash flows. A 100 basis point increase in the discount rate utilized to calculate the Gas Utility Services segment's fair value also results in no impairment charge.

### Pension and Other Postretirement Obligations

The Company estimates the expected return on plan assets, discount rate, rate of compensation increase, and future health care costs, among other things, and relies on actuarial estimates to assess the future potential liability and funding requirements of the Company's pension and postretirement plans. The Company annually measures its obligations on September 30. The Company used the following weighted average assumptions to develop 2002 annual costs and the

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ending benefit obligations recognized in the consolidated financial statements: a discount rate of 6.75%, an expected return on plan assets before expenses of 9.00%, a rate of compensation increase of 4.25%, and a health care cost trend rate of 10% in 2002 declining to 5% in 2006. During 2002, the Company reduced the discount rate and rate of compensation increase by 50 basis points from those assumptions used in 2001 due to the general decline in interest rates and other market conditions that occurred in 2002. Future changes in health care costs, work force demographics, interest rates, or plan changes could significantly affect the estimated cost of these future benefits.

For the year ended December 31, 2002, a 1% adverse change in the assumed health care cost trend rate for the postretirement health care plans would have decreased pre-tax income by approximately \$0.4 million and would have increased the postretirement liability by approximately \$5.6 million.

### Unbilled Revenues

To more closely match revenues and expenses, the Company records revenues for all gas and electricity delivered to customers but not billed at the end of the accounting period. The Company uses actual units billed during the month to allocate unbilled units. Those allocated units are multiplied by rates in effect during the month to calculate unbilled revenue at balance sheet dates. While certain estimates are used in the calculation of unbilled revenue, these estimates are not subject to near term changes.

### Regulation

At each reporting date, the Company reviews current regulatory trends in the markets in which it operates. This review involves judgement and is critical in assessing the recoverability of regulatory assets as well as the ability to continue to account for its activities based on the criteria set forth in SFAS No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). Based on the Company's current review, it believes its regulatory assets are probable of recovery. If all or part of the Company's operations cease to meet the criteria of SFAS 71, a write-off of related regulatory assets and liabilities could be required. In addition, the Company would be required to determine any impairment to the carrying value of its utility plant and other regulated assets. In the unlikely event of a change in the current regulatory environment, such write-offs and impairment charges could be significant.

### Impact of Recently Issued Accounting Guidance on Future Operations

#### EITF 02-03

In October 2002, the EITF reached a final consensus in EITF Issue 02-03 "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-03) that gains and losses (realized and unrealized) on all derivative instruments within the scope of SFAS 133 should be shown net in the income statement, whether or not settled phy