

VECTREN UTILITY HOLDINGS INC
Form 10-K
March 05, 2014

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013
OR

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

For the transition period from _____ to _____

Commission file number: 1-16739

VECTREN UTILITY HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

INDIANA
(State or other jurisdiction of incorporation or organization)

One Vectren Square
(Address of principal executive offices)

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

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

35-2104850
(IRS Employer Identification No.)
47708
(Zip Code)

Edgar Filing: VECTREN UTILITY HOLDINGS INC - Form 10-K

Title of each class	Name of each exchange on which registered
Vectren Utility 6.10% SR NTS 12/1/2035	New York Stock Exchange

1

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

Title of each class	Name of each exchange on which registered
Common – Without Par	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

*Yes No

*Utility Holdings is a majority owned subsidiary of a well-known seasoned issuer, and well-known seasoned issuer status depends in part on the type of security being registered by the majority-owned subsidiary.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2013, was zero. All shares outstanding of the Registrant's common stock were held by Vectren Corporation.

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

Edgar Filing: VECTREN UTILITY HOLDINGS INC - Form 10-K

Common Stock - Without Par Value Class	10 Number of Shares	February 28, 2014 Date
---	------------------------	---------------------------

2

Omission of Information by Certain Wholly Owned Subsidiaries

The Registrant is a wholly owned subsidiary of Vectren Corporation and meets the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and is therefore filing with the reduced disclosure format contemplated thereby.

Definitions

AFUDC: allowance for funds used during construction	MCF / BCF: thousands / billions of cubic feet
ASC: Accounting Standards Codification	MDth / MMDth: thousands / millions of dekatherms
BTU / MMBTU: British thermal units / millions of BTU	MISO: Midcontinent Independent System Operator (formerly Midwest Independent System Operator)
DOT: Department of Transportation	MW: megawatts
EPA: Environmental Protection Agency	MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours)
FASB: Financial Accounting Standards Board	NERC: North American Electric Reliability Corporation
FERC: Federal Energy Regulatory Commission	OCC: Ohio Office of the Consumer Counselor
IDEM: Indiana Department of Environmental Management	OUCC: Indiana Office of the Utility Consumer Counselor
IRC: Internal Revenue Code	PUCO: Public Utilities Commission of Ohio
IURC: Indiana Utility Regulatory Commission	Throughput: combined gas sales and gas transportation volumes
Kv: Kilovolt	XBRL: eXtensible Business Reporting Language

Access to Information

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

Mailing Address:
One Vectren Square
Evansville, Indiana 47708

Phone Number:
(812) 491-4000

Investor Relations Contact:
Robert L. Goocher
Treasurer and Vice President, Investor Relations
vvcir@vectren.com

Table of Contents

Item Number		Page Number
Part I		
1	Business	<u>5</u>
1A	Risk Factors	<u>10</u>
1B	Unresolved Staff Comments	<u>17</u>
2	Properties	<u>18</u>
3	Legal Proceedings	<u>19</u>
4	Mine Safety Disclosures	<u>19</u>
Part II		
5	Market for Company's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	<u>19</u>
6	Selected Financial Data	<u>20</u>
7	Management's Discussion and Analysis of Results of Operations and Financial Condition	<u>21</u>
7A	Quantitative and Qualitative Disclosures About Market Risk	<u>43</u>
8	Financial Statements and Supplementary Data	<u>45</u>
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>85</u>
9A	Controls and Procedures, including Management's Assessment of Internal Control over Financial Reporting Controls and Procedures	<u>85</u>
9B	Other Information	<u>85</u>
Part III		
10	Directors, Executive Officers and Corporate Governance ^(A)	<u>85</u>
11	Executive Compensation ^(A)	<u>86</u>
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters ^(A)	<u>86</u>
13	Certain Relationships, Related Transactions and Director Independence ^(A)	<u>86</u>
14	Principal Accountant Fees and Services	<u>86</u>
Part IV		
15	Exhibits and Financial Statement Schedules	<u>87</u>
	Signatures	<u>94</u>

– Omitted or amended as the Registrant is a wholly owned subsidiary of Vectren Corporation and meets the (A) conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K and is therefore filing with the reduced disclosure format contemplated thereby.

PART I

ITEM 1. BUSINESS

Description of the Business

Vectren Utility Holdings, Inc. (the Company, Utility Holdings or VUHI), an Indiana corporation, was formed on March 31, 2000 to serve as the intermediate holding company for Vectren Corporation's (Vectren) three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren North), Southern Indiana Gas and Electric Company (SIGECO or Vectren South), and Vectren Energy Delivery of Ohio, Inc. (VEDO or Vectren Ohio). Utility Holdings also has other assets that provide information technology and other services to the three utilities. Vectren, an Indiana corporation, is an energy holding company headquartered in Evansville, Indiana and was organized on June 10, 1999. Both Vectren and Utility Holdings are holding companies as defined by the Energy Policy Act of 2005 (Energy Act).

Indiana Gas provides energy delivery services to approximately 570,000 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to approximately 142,000 electric customers and approximately 110,000 gas customers located near Evansville in southwestern Indiana. SIGECO also owns and operates electric generation assets to serve its electric customers and optimizes those assets in the wholesale power market. Indiana Gas and SIGECO generally do business as Vectren Energy Delivery of Indiana. VEDO provides energy delivery services to approximately 312,000 natural gas customers located near Dayton in west central Ohio.

Narrative Description of the Business

The Company has regulated operations and other operations that provide information technology and other support services to those regulated operations. The Company segregates its regulated operations into a Gas Utility Services operating segment and an Electric Utility Services operating segment. The Gas Utility Services segment includes the operations of Indiana Gas, VEDO, and SIGECO's natural gas distribution business and provides natural gas distribution and transportation services to nearly two-thirds of Indiana and to west central Ohio. The Electric Utility Services segment includes the operations of SIGECO's electric transmission and distribution services, which provides electric distribution services primarily to southwestern Indiana, and the Company's power generating and wholesale power operations. In total, these regulated operations supply natural gas and/or electricity to over one million customers.

At December 31, 2013, the Company had \$4.1 billion in total assets, with approximately \$2.3 billion (56 percent) attributed to Gas Utility Services, \$1.7 billion (41 percent) attributed to Electric Utility Services, and \$0.1 billion (3 percent) attributed to Other Operations. Net income for the year ended December 31, 2013, was \$141.8 million, with \$55.7 million attributed to Gas Utility Services, \$75.8 million attributed to Electric Utility Services, and \$10.3 million attributed to Other Operations. Net income for the year ended December 31, 2012, was \$138.0 million. For further information regarding the activities and assets of operating segments, refer to Note 12 in the Company's Consolidated Financial Statements included in Item 8.

Following is a more detailed description of the Gas Utility Services and Electric Utility Services operating segments. The Company's Other Operations are not significant.

Gas Utility Services

At December 31, 2013, the Company supplied natural gas service to approximately 1,005,900 Indiana and Ohio customers, including 919,000 residential, 85,200 commercial, and 1,700 industrial and other contract customers. Average gas utility customers served were approximately 992,100 in 2013, 986,100 in 2012, and 983,700

in 2011.

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, polycarbonate resin (Lexan®) and plastic products; gypsum products; electrical equipment, metal specialties, glass and steel finishing; pharmaceutical and nutritional products; gasoline and oil products; ethanol; and coal mining. The largest Indiana communities served are Evansville, Bloomington, Terre Haute, suburban areas surrounding Indianapolis and Indiana counties near Louisville, Kentucky. The largest community served outside of Indiana is Dayton, Ohio.

5

Revenues

The Company receives gas revenues by selling gas directly to customers at approved rates or by transporting gas through its pipelines at approved rates to customers that have purchased gas directly from other producers, brokers, or marketers. Total throughput was 223.6 MMDth for the year ended December 31, 2013. Gas sold and transported to residential and commercial customers was 111.9 MMDth representing 50 percent of throughput. Gas transported or sold to industrial and other contract customers was 111.7 MMDth representing 50 percent of throughput. Rates for transporting gas generally provide for the same margins earned by selling gas under applicable sales tariffs. In 2012, natural gas began being transported to a natural gas fired power plant that was recently placed into service in the Vectren South service territory. Volumes were 6.6 MMDth in 2013 and 6.3 MMDth in 2012. Revenues associated with gas volumes delivered to the new plant are based on a monthly fixed charge.

For the year ended December 31, 2013, gas utility revenues were approximately \$810.0 million, of which residential customers accounted for 67 percent and commercial accounted for 24 percent. Industrial and other contract customers accounted for only 9 percent of revenues.

Availability of Natural Gas

The volumes of gas sold is seasonal and affected by variations in weather conditions. To meet seasonal demand, the Company's Indiana gas utilities have storage capacity at eight active underground gas storage fields and three propane plants. Periodically, purchased natural gas is injected into storage. The injected gas is then available to supplement contracted and manufactured volumes during periods of peak requirements. The volumes of gas per day that can be delivered during peak demand periods for each utility are located in "Item 2 Properties."

Natural Gas Purchasing Activity in Indiana

The Indiana utilities also enter into short term and long term contracts with third party suppliers to ensure availability of gas. Prior to June 18, 2013, the Company contracted with a wholly-owned subsidiary of ProLiance Holdings, LLC (ProLiance). ProLiance is an unconsolidated, nonutility, energy marketing affiliate of Vectren and Citizens Energy Group (Citizens). On June 18, 2013, ProLiance exited the natural gas marketing business through the disposition of certain of the net assets of its energy marketing business, ProLiance Energy, LLC (ProLiance Energy) (See the discussion of Energy Marketing in Note 5 in the Company's Consolidated Financial Statements included in Item 8 regarding transactions with ProLiance). The Company, through its utility subsidiaries, purchases all of its gas supply from third parties and 91 percent is from a single third party.

Natural Gas Purchasing Activity in Ohio

On April 30, 2008, the PUCO issued an order which approved the first two phases of a three phase plan to exit the merchant function in the Company's Ohio service territory. As a result, substantially all of the Company's Ohio customers now purchase natural gas directly from retail gas marketers rather than from the Company.

The PUCO provided for an Exit Transition Cost rider, which allows the Company to recover costs associated with the first two phases of the transition process. Exiting the merchant function has not had a material impact on earnings or financial condition. It, however, has and will continue to reduce Gas utility revenues and have an equal and offsetting impact to Cost of gas sold as VEDO, for the most part, no longer purchases gas for resale.

Total Natural Gas Purchased Volumes

In 2013, Utility Holdings purchased 78.7 MMDth volumes of gas at an average cost of \$4.60 per Dth. The average cost of gas per Dth purchased for the previous four years was \$4.47 in 2012, \$5.30 in 2011, \$5.99 in 2010, and \$5.97 in 2009.

Electric Utility Services

At December 31, 2013, the Company supplied electric service to approximately 142,900 Indiana customers, including approximately 124,300 residential, 18,400 commercial, and 200 industrial and other customers. Average electric utility customers served were approximately 142,300 in 2013, 141,700 in 2012, and 141,400 in 2011.

The principal industries served include polycarbonate resin (Lexan®) and plastic products; aluminum smelting and recycling; aluminum sheet products, automotive assembly, steel finishing, pharmaceutical and nutritional products; automotive glass; gasoline and oil products; ethanol; and coal mining.

Revenues

For the year ended December 31, 2013, retail electricity sales totaled 5,479.1 GWh, resulting in revenues of approximately \$567.8 million. Residential customers accounted for 36 percent of 2013 revenues; commercial 27 percent; industrial 35 percent; and other 2 percent. In addition, in 2013 the Company sold 514.4 GWh through wholesale activities principally to the MISO. Wholesale revenues, including transmission-related revenue, totaled \$51.5 million in 2013.

System Load

Total load for each of the years 2009 through 2013 at the time of the system summer peak, and the related reserve margin, is presented below in MW.

Date of summer peak load	8/30/2013	7/24/2012	7/21/2011	8/4/2010	6/22/2009	
Total load at peak	1,102	1,259	1,220	1,275	1,143	
Generating capability	1,298	1,298	1,298	1,298	1,295	
Firm purchase supply	38	136	136	136	136	
Interruptible contracts & direct load control	48	60	60	62	62	
Total power supply capacity	1,384	1,494	1,494	1,496	1,493	
Reserve margin at peak	25	% 19	% 22	% 17	% 31	%

The winter peak load for the 2012-2013 season of approximately 832 MW occurred on February 1, 2013. The prior year winter peak load for the 2011-2012 season was approximately 895 MW, occurring on January 12, 2012.

Generating Capability

Installed generating capacity as of December 31, 2013, was rated at 1,298 MW. Coal-fired generating units provide 1,000 MW of capacity, natural gas or oil-fired turbines used for peaking or emergency conditions provide 295 MW, and in 2009 SIGECO purchased a landfill gas electric generation project which provides 3 MW. Electric generation for 2013 was fueled by coal (97 percent), natural gas (3 percent), and landfill gas (less than 1 percent). Oil was used only for testing of gas/oil-fired peaking units. The Company generated approximately 5,279 GWh in 2013. Further information about the Company's owned generation is included in "Item 2 Properties."

There are substantial coal reserves in the southern Indiana area, and coal for coal-fired generating stations has been supplied from operators of nearby coal mines, including coal mines in Indiana owned by Vectren Fuels, Inc. (Vectren Fuels), a wholly owned subsidiary of Vectren. Approximately 1.9 million tons were purchased for generating electricity during 2013, of which approximately 95 percent was supplied by Vectren Fuels from its mines. This compares to 2.1 million tons and 2.3 million tons purchased in 2012 and 2011, respectively. The utility's coal inventory was approximately 300 thousand tons and 1 million tons at December 31, 2013 and 2012, respectively.

Coal Purchases

The average cost of coal per ton purchased and delivered for the last five years was \$58.38 in 2013, \$68.65 in 2012, \$75.04 in 2011, \$70.47 in 2010, and \$64.28 in 2009. Effective January 1, 2009, SIGECO began purchasing coal from Vectren Fuels under new coal purchase agreements. The term of these coal purchase agreements expire at various

dates between 2014 and 2016 with prices specified originally ranging from two to four years. The prices in these contracts were at or below market prices for Illinois Basin coal at the time of execution and were subject to a bidding process with third parties. The IURC has found that costs incurred under these contracts are reasonable. For contracts with price reopeners, amendments were finalized in 2011 for coal deliveries that began in 2012 at lower prices.

The Company received an order from the IURC on January 25, 2012 to allow for the lower prices that began late in 2012 and beyond to be reflected in customer bills beginning in early 2012. Because of the order the cost of coal expensed in 2012 was lower than amounts paid under existing contracts and included in the carrying amount of inventory at December 31, 2011. The IURC authorized the deferral of the difference between costs paid under these contracts and that charged to customers. See "Rate and Regulatory Matters" in Item 7 regarding coal procurement procedures and electric fuel cost reductions.

Firm Purchase Supply

The Company, through SIGECO, has a 1.5 percent interest in the Ohio Valley Electric Corporation (OVEC). OVEC is owned by 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 can 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. The Company's 1.5 percent interest in OVEC makes available approximately 30 MW of capacity. The Company purchased approximately 169 GWh from OVEC in 2013.

The Company executed a capacity contract with Benton County Wind Farm, LLC in April 2008 to purchase as much as 30 MW from a wind farm located in Benton County, Indiana, with the approval of the IURC. The contract expires in 2029. In 2013, the Company purchased approximately 61 GWh under this contract.

In December 2009, the Company executed a 20 year power purchase agreement with Fowler Ridge II Wind Farm, LLC to purchase as much as 50 MW of energy from a wind farm located in Benton and Tippecanoe Counties in Indiana, with the approval of the IURC. The Company purchased 134 GWh under this contract in 2013.

MISO Related Activity

The Company is a member of the MISO, a FERC approved regional transmission organization. The MISO serves the electric transmission needs of much of the Midcontinent region and maintains operational control over the Company's electric transmission facilities as well as that of other utilities in the region. The Company is an active participant in the MISO energy markets, where it bids its generation into the Day Ahead and Real Time markets and procures power for its retail customers at Locational Marginal Pricing (LMP) as determined by the MISO market. MISO-related purchase and sale transactions are recorded using settlement information provided by MISO. These purchase and sale transactions are accounted for on a net hourly position. Net purchases in a single hour are recorded as purchased power in Cost of fuel & purchased power and net sales in a single hour are recorded in Electric utility revenues. During 2013, in hours when purchases from the MISO were in excess of generation sold to the MISO, the net purchases were 536 GWh. During 2013, in hours when sales to the MISO were in excess of purchases from the MISO, the net sales were 514 GWh.

Capacity Purchase

In May 2008, the Company executed a MISO capacity purchase from Sempra Energy Trading, LLC to purchase 100 MW of name plate capacity from its generating facility in Dearborn, Michigan. The term of the contract began January 1, 2010 and expired on December 31, 2012. The Company has not replaced this contract.

Interconnections

The Company has interconnections with Louisville Gas and Electric Company, Duke Energy Shared Services, Inc., Indianapolis Power & Light Company, Hoosier Energy Rural Electric Cooperative, Inc., Big Rivers Electric Corporation, and the City of Jasper, Indiana, providing the ability to simultaneously interchange approximately 671

MW during peak load periods. This interchange capability varies from season to season and has been impacted in recent years as a result of ongoing initiatives to improve the transmission grid throughout the Midwest. As an example, the 345 kV Vectren transmission project that was placed into service in December 2012 resulted in the ability to simultaneously interchange an additional 100 MW. The Company, as required as a member of the MISO, has turned over operational control of the interchange facilities and its own transmission assets to MISO.

Competition

The utility industry has undergone structural changes for several years, resulting in increasing competitive pressures faced by electric and gas utility companies. Currently, several states have passed legislation allowing electricity customers to choose their electricity supplier in a competitive electricity market and several other states have considered 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 customers in Ohio in January 2003. Substantially all of VEDO's customers receive gas from third-party suppliers and at December 31, 2013, approximately 131,000 customers in Vectren's Ohio service territory had selected their supplier. In addition, VEDO's service territory continues to transition toward exiting the merchant function. Margin earned for transporting natural gas to those customers, who have purchased natural gas from another supplier, is generally the same as that earned by selling gas under Ohio tariffs. Indiana has not adopted any regulation requiring gas choice; however, the Company operates under approved tariffs permitting certain industrial and commercial large volume customers to choose their commodity supplier.

Increased competition, including those from cogeneration, solar, and other renewables opportunities for customers, create competitive pressures. In this regard, the deployment and commercialization of disruptive technologies, such as renewable energy sources and cogeneration facilities, have the potential to change the nature of the utility industry and reduce demand for the Company's electric and gas products and services. If the Company is not able to appropriately adapt to structural changes in the utility industry as a result of the development of disruptive technologies, this may have an adverse effect on the Company's financial condition and results of operations.

Regulatory and Environmental Matters

See "Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition" regarding the Company's regulatory environment and environmental matters.

Personnel

As of December 31, 2013, the Company and its consolidated subsidiaries had approximately 1,500 employees, of which 700 are subject to collective bargaining arrangements.

In June 2013, the Company reached a three year labor agreement with Local 702 of the International Brotherhood of Electrical Workers, ending June 30, 2016. This labor agreement relates to employees of SIGECO.

In December 2012, the Company reached a three year agreement with Local 175 of the Utility Workers Union of America. The labor agreement was retroactively effective to November 1, 2012 and ends October 31, 2015. This labor agreement relates to employees of VEDO.

In September 2012, the Company reached a three year agreement with Local 135 of the Teamsters, Chauffeurs, Warehousemen, and Helpers Union, ending September 23, 2015. This labor agreement relates to employees of SIGECO.

In December 2011, the Company reached a three year labor agreement, ending December 1, 2014, with Local 1393 of the International Brotherhood of Electrical Workers and United Steelworkers of America Locals 12213 and 7441. This labor agreement relates to employees of Indiana Gas.

ITEM 1A. RISK FACTORS

Investors should consider carefully the following factors that could cause the Company’s operating results and financial condition to be materially adversely affected. New risks may emerge at any time, and the Company cannot predict those risks or estimate the extent to which they may affect the Company’s businesses or financial performance.

Utility Holdings is a holding company and its assets consist primarily of investments in its subsidiaries.

The ability of Utility Holdings to receive dividends and repay indebtedness depends on the earnings, financial condition, capital requirements and cash flow of its subsidiaries, SIGECO, Indiana Gas, and VEDO and the distribution or other payment of earnings from those entities to Utility Holdings. Should the earnings, financial condition, capital requirements or cash flow of, or legal requirements applicable to them restrict their ability to pay dividends or make other payments to Utility Holdings, its ability to pay dividends to its parent could be limited. Utility Holdings’ results of operations, future growth, and earnings and dividend goals also will depend on the performance of its subsidiaries. Additionally, certain of the Company’s lending arrangements contain restrictive covenants, including the maintenance of a total debt to total capitalization ratio.

Deterioration in general economic conditions may have adverse impacts.

Economic conditions may have some negative impact on both gas and electric large customers and wholesale power sales. This impact may include volatility and unpredictability in the demand for natural gas and electricity, tempered growth strategies, significant conservation measures, and perhaps plant closures, production cutbacks, or bankruptcies. Economic conditions may also cause reductions in residential and commercial customer counts and lower revenues. It is also possible that an uncertain economy could affect costs including pension costs, interest costs, and uncollectible accounts expense.

Financial market volatility could have adverse impacts.

The capital and credit markets may experience volatility and disruption. If market disruption and volatility occurs, there can be no assurance that the Company will not experience adverse effects, which may be material. These effects may include, but are not limited to, difficulties in accessing the short and long-term debt capital markets and the commercial paper market, increased borrowing costs associated with current short-term debt obligations, higher interest rates in future financings, and a smaller potential pool of investors and funding sources.

Utility Holdings has long-term and short-term debt guaranteed by its subsidiaries.

Utility Holdings currently has outstanding long-term and short-term debt that is jointly and severally guaranteed by Indiana Gas, SIGECO, and VEDO. These guarantees do not represent incremental consolidated obligations; rather, they represent guarantees of Utility Holdings' obligations.

A downgrade (or negative outlook) in or withdrawal of Utility Holdings’ credit ratings could negatively affect its ability to access capital and its cost.

The following table shows the current ratings assigned to certain outstanding debt by Moody’s and Standard & Poor’s:

	Current Rating	
	Moody’s	Standard & Poor’s
Utility Holdings and Indiana Gas senior unsecured debt	A2	A-
Utility Holdings commercial paper program	P-1	A-2

SIGECO's senior secured debt

Aa3

A

The current outlook for both Moody's and Standard and Poor's is stable. The above table also reflects Moody's January 30, 2014 upgrades to each of the credit ratings shown. Both rating agencies categorize the ratings of the above securities as investment grade. A security rating is not a recommendation to buy, sell, or hold securities. The rating is subject to revision or

10

withdrawal at any time, and each rating should be evaluated independently of any other rating. Standard and Poor's and Moody's lowest level investment grade rating is BBB- and Baa3, respectively.

If the rating agencies downgrade the Company's credit ratings, particularly below investment grade, or initiate negative outlooks thereon, or withdraw Utility Holdings' ratings or, in each case, the ratings of its subsidiaries, it may significantly limit Utility Holdings' access to the debt capital markets and the commercial paper market, and the Company's borrowing costs would increase. In addition, Utility Holdings would likely be required to pay a higher interest rate in future financings, and its potential pool of investors and funding sources would likely decrease.

Utility Holdings' gas and electric utility sales are concentrated in the Midwest.

The operations of the Company's regulated utilities are concentrated in central and southern Indiana and west central Ohio and are therefore impacted by changes in the Midwest economy in general and changes in particular industries concentrated in the Midwest. These industries include automotive assembly, parts and accessories; feed, flour and grain processing; metal castings, aluminum products, polycarbonate resin (Lexan®) and plastic products; gypsum products; electrical equipment, metal specialties, glass and steel finishing; aluminum smelting and recycling; pharmaceutical and nutritional products; gasoline and oil products; ethanol and coal mining.

Utility Holdings operates in an increasingly competitive industry, which may affect its future earnings.

The utility industry has been undergoing structural change for several years, resulting in increasing competitive pressure faced by electric and gas utility companies. Increased competition, including those from cogeneration, solar, and other renewables opportunities for customers, may create greater risks to the stability of the Company's earnings generally and may in the future reduce its earnings from retail electric and gas sales. In this regard, the deployment and commercialization of disruptive technologies, such as renewable energy sources and cogeneration facilities, have the potential to change the nature of the utility industry and reduce demand for the Company's electric and gas products and services. If the Company is not able to appropriately adapt to structural changes in the utility industry as a result of the development of disruptive technologies, this may have an adverse effect on the Company's financial condition and results of operations. Additionally, several states, including Ohio, have passed legislation that allows customers to choose their electricity supplier in a competitive market. Indiana has not enacted such legislation but has recently begun to explore electric choice options. Ohio regulation also provides for choice of commodity providers for all gas customers. The Company implemented this choice for its gas customers in Ohio and is currently in the second of the three phase process to exit the merchant function in its Ohio service territory. The state of Indiana has not adopted any regulation requiring gas choice in the Company's Indiana service territories; however, the Company operates under approved tariffs permitting certain industrial and commercial large volume customers to choose their commodity supplier. The Company cannot provide any assurance that increased competition or other changes in legislation, regulation or policies will not have a material adverse effect on its business, financial condition or results of operations.

A significant portion of Utility Holdings' electric utility sales are space heating and cooling. Accordingly, its operating results may fluctuate with variability of weather.

Utility Holdings' electric utility sales are sensitive to variations in weather conditions. The Company forecasts utility sales on the basis of normal weather. Since the Company does not have a weather-normalization mechanism for its electric operations, significant variations from normal weather could have a material impact on its earnings. However, the impact of weather on the gas operations in the Company's Indiana territories has been significantly mitigated through the implementation of a normal temperature adjustment mechanism. Additionally, the implementation of a straight fixed variable rate design mitigates most weather variations related to Ohio residential gas sales.

Utility Holdings' businesses are exposed to increasing regulation, including pipeline safety, environmental, and cybersecurity regulation.

Utility Holdings' businesses are subject to regulation by federal, state, and local regulatory authorities and are exposed to public policy decisions that may negatively impact the Company's earnings. In particular, Utility Holdings is subject to regulation by the FERC, the NERC, the EPA, the IURC, the PUCO, the DOT, Department of Energy (DOE), and Department of Homeland

Security (DHS). These authorities regulate many aspects of its generation, transmission and distribution operations, including construction and maintenance of facilities, operations, and safety. In addition, the IURC, PUCO, and FERC approve its utility-related debt and equity issuances, regulate the rates that Vectren's utilities can charge customers, the rate of return that Utility Holdings' utilities are authorized to earn, and its ability to timely recover gas and fuel costs and investments in infrastructure. Further, there are consumer advocates and other parties that may intervene in regulatory proceedings and affect regulatory outcomes.

Trends Toward Stricter Standards

With the trend toward stricter standards, greater regulation, more extensive permit requirements and an increase in the number and types of assets operated that are subject to regulation, the Company's investment in infrastructure, and the associated operating costs have increased and are expected to increase in the future. As examples of the trend toward stricter regulation, the EPA is currently considering revisions to regulations involving fly ash disposal, cooling tower intake facilities, waste water discharges, and greenhouse gases and continues to implement increasingly more stringent air quality standards.

Pipeline Safety Considerations

The Company monitors and maintains its natural gas distribution system to ensure that natural gas is delivered in a safe, efficient and reliable manner. Utility Holdings' natural gas utilities are currently engaged in replacement programs in both Indiana and Ohio, the primary purpose of which is preventive maintenance and continual renewal and improvement. The Pipeline Safety, Regulatory Certainty and Job Creation Act of 2011 (Pipeline Safety Law) was signed into law on January 3, 2012 and the Company continues to study the impact of the Pipeline Safety Law and potential new regulations associated with its implementation. While certain of the compliance costs remain uncertain, the Pipeline Safety Law is expected to result in further investment in pipeline inspections, and where necessary, additional investments in pipeline infrastructure; and therefore, result in both increased levels of operating expenses and capital expenditures associated with the Company's natural gas distribution businesses as evidenced by recent regulatory filings in Indiana and Ohio by Vectren North, Vectren South, and Vectren Energy Delivery of Ohio.

Environmental Considerations

Utility Holdings' operations and properties are subject to extensive environmental regulation pursuant to a variety of federal, state and municipal laws and regulations. These environmental regulations impose, among other things, restrictions, liabilities, and obligations in connection with the storage, transportation, treatment, and disposal of hazardous substances and limit airborne emissions from electric generating facilities, including particulate matter, sulfur dioxide (SO₂), nitrogen oxide (NO_x), and mercury, among others. Environmental legislation/regulation also requires that facilities, sites, and other properties associated with Utility Holdings' operations be operated, maintained, abandoned, and reclaimed to the satisfaction of applicable regulatory authorities. The Company's current costs to comply with these laws and regulations are significant to its results of operations and financial condition.

Climate Change and Renewable Energy Considerations

While there have been a series of legislative proposals to address global climate change that would regulate carbon dioxide (CO₂) and other greenhouse gases and other proposals that would mandate an investment in renewable energy sources, none have been finalized to date. The US Supreme Court has determined that the EPA has the authority to regulate greenhouse gases as a pollutant under the Clean Air Act. Any future legislative or regulatory actions taken by the EPA or other agencies to address global climate change or mandate renewable energy sources could substantially affect both the costs and operating characteristics of the Company's fossil fuel generating plants and natural gas distribution businesses. Further, such legislation or regulatory action would likely impact the Company's generation resource planning decisions. The Company has gathered preliminary estimates of the costs to control greenhouse gas emissions. A preliminary investigation demonstrated costs to comply would be significant, first with regard to operating expenses and later for capital expenditures as technology becomes available to control greenhouse gas emissions. However, these compliance cost estimates are based on highly uncertain assumptions, including

allowance prices if a cap and trade approach were employed, and energy efficiency targets. At this time and in the absence of final legislation or regulatory mandates, compliance costs and other effects associated with reductions in greenhouse gas emissions or obtaining renewable energy sources remain uncertain.

Evolving Cybersecurity Standards and Considerations

The frequency, size and variety of cybersecurity threats against critical infrastructure companies continues to grow, as do the evolving frameworks, standards and regulations intended to keep pace with and address these threats. In 2013, there was a marked increase in interest from both State and Federal regulatory agencies related to cybersecurity in general, and specifically in critical infrastructure sectors, including electric and natural gas. The Company has a dedicated cybersecurity team and maintains vigilance with regard to the assessment of cybersecurity risks, the measures employed to protect information technology assets, critical infrastructure, the Company and its customers from these threats. Cybersecurity threats, however, constantly evolve in attempts to identify and capitalize on any weakness or unprotected areas. If these measures were to fail or if a breach were to occur, it could result in impairment or loss of critical functions, operating reliability, customer or other confidential information. The ultimate effects of which are difficult to quantify with any certainty.

Increasing regulation and infrastructure replacement programs could affect Utility Holdings' utility rates charged to customers, its costs, and its profitability.

Any additional expenses or capital incurred by the Company, as it relates to complying with increasing regulation and other infrastructure replacement activities are expected to be borne by the customers in its service territories through increased rates. Increased rates have an impact on the economic health of the communities served. New regulations could also negatively impact industries in the Company's service territory.

The Company's ability to obtain rate increases and to maintain current authorized rates of return depends in part upon regulatory discretion, and there can be no assurance that the Company will be able to obtain rate increases or rate supplements or earn currently authorized rates of return. Both Indiana and Ohio have passed laws allowing utilities to recover at least some of the cost of complying with federal mandates or other infrastructure replacement expenditures, and in Ohio other capital investments, outside of a base rate proceeding. However, these activities may have at least a short-term adverse impact on the Company's cash flow and financial condition.

In addition, failure to comply with new or existing laws and regulations may result in fines, penalties, or injunctive measures and may not be recoverable from customers and could result in a material adverse effect on the Company's financial condition and results of operations.

Utility Holdings' energy delivery operations are subject to various risks.

A variety of hazards and operations risks, such as leaks, accidental explosions, and mechanical problems, are inherent in the Company's gas and electric distribution activities. If such events occur, they could cause substantial financial losses and result in injury to or loss of human life, significant damage to property, environmental pollution, and impairment of operations. The location of pipelines, storage facilities, and the electric grid near populated areas, including residential areas, commercial business centers, and industrial sites, could increase the level of damages resulting from these risks. These activities may subject the Company to litigation or administrative proceedings from time to time. Such litigation or proceedings could result in substantial monetary judgments, fines, or penalties or be resolved on unfavorable terms. In accordance with customary industry practices, the Company maintains insurance against a significant portion, but not all, of these risks and losses. To the extent that the occurrence of any of these events is not fully covered by insurance, it could adversely affect the Company's financial condition and results of operations.

Utility Holdings' power supply operations are subject to various risks.

The Company's electric generating facilities are subject to operational risks that could result in unscheduled plant outages, unanticipated operation and maintenance expenses and increased power purchase costs. Such operational

risks can arise from circumstances such as facility shutdowns due to equipment failure or operator error; interruption of fuel supply or increased prices of fuel as contracts expire; disruptions in the delivery of electricity; inability to comply with regulatory or permit requirements; labor disputes; and natural disasters.

The Company participates in the MISO.

The Company is a member of the MISO, which serves the electric transmission needs of much of the Midcontinent region and maintains operational control over SIGECO's electric transmission facilities, as well as that of other utilities in the region. As a result of such control, SIGECO's continued ability to import power, when necessary, and export power to the wholesale market has been, and may continue to be, impacted.

The need to expend capital for improvements to the regional transmission system, both to SIGECO's facilities as well as to those facilities of adjacent utilities, over the next several years is expected to be significant. The Company timely recovers its investment in certain new electric transmission projects that benefit the MISO infrastructure at a FERC approved rate of return, which is currently under review based on a joint complaint filed under Section 206 against MISO and various MISO transmission owners, including SIGECO. The FERC has yet to rule on the case and the Company is currently unable to predict the outcome of the proceeding.

Also, the MISO allocates operating costs and the cost of multi-value projects throughout the region to its participating utilities such as SIGECO and such costs are significant. Adjustments to these operating costs, including adjustments that result from participants entering or leaving the MISO, could cause increases or decreases to customer bills. The Company timely recovers its portion of MISO operating expenses as tracked costs.

Wholesale power marketing activities may add volatility to earnings.

Utility Holdings' regulated electric utility engages in wholesale power marketing activities that primarily involve the offering of utility-owned or contracted generation into the MISO hourly and real time markets. As part of these strategies, the Company may also execute energy contracts that are integrated with portfolio requirements around power supply and delivery. Presently, margin earned from these activities above or below \$7.5 million per year is shared evenly with customers. These earnings from wholesale marketing activities may vary based on fluctuating prices for electricity and the amount of electric generating capacity or purchased power available beyond that needed to meet firm service requirements. In addition, this earnings sharing approach may be modified in future regulatory proceedings.

Volatility in the wholesale price of natural gas, coal, and electricity could reduce earnings and working capital.

The Company's operations have limited exposure to commodity price risk for transactions involving purchases and sales of natural gas, coal, and purchased power for the benefit of retail customers due to current state regulations, which subject to compliance with those regulations, allow for recovery of the cost of such purchases through natural gas and fuel cost adjustment mechanisms. However, significant volatility in the price of natural gas, coal, or purchased power may cause existing customers to conserve or motivate them to switch to alternate sources of energy as well as cause new home developers, builders, and new customers to select alternative sources of energy. Decreases in volumes sold could reduce earnings. The decrease would be more significant in the absence of constructive regulatory orders, such as those authorizing revenue decoupling, lost margin recovery, and other innovative rate designs. A decline in new customers could impede growth in future earnings. In addition, during periods when commodity prices are higher than historical levels, working capital costs could increase due to higher carrying costs of inventories and cost recovery mechanisms, and customers may have trouble paying higher bills leading to increased bad debt expenses.

Increased conservation efforts and technology advances, which result in improved energy efficiency or the development of alternative energy sources, may result in reduced demand for the Company's energy products and services.

The trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, may reduce the demand for energy products. Prices for natural gas are subject to volatile fluctuations in response to changes in supply and other market conditions. During periods of high energy commodity costs, the Company's prices generally increase which may lead to customer conservation. State and/or federal regulation may require mandatory conservation measures, which would reduce the demand for energy products. In addition, the Company's customers, especially large commercial and industrial customers, may choose to employ various technological advances to develop alternative energy sources, such as the construction and development of wind power, solar

technology, or electric cogeneration facilities. Increased conservation efforts and the utilization of technological advances to increase energy efficiency or to develop alternate energy sources could lead to a reduction in demand for the Company's energy products and services, which could have an adverse effect on its revenues and overall results of operations.

The Company is exposed to physical and financial risks related to the uncertainty of climate change.

A changing climate creates uncertainty and could result in broad changes to the Company's service territories. These impacts could include, but are not limited to, population shifts; changes in the level of annual rainfall; changes in the weather; and changes to the frequency and severity of weather events such as thunderstorms, wind, tornadoes, and ice storms that can damage infrastructure. Such changes could impact the Company in a number of ways including the number and/or type of customers in the Company's service territories; the demand for energy resulting in the need for additional investment in generation assets or the need to retire current infrastructure that is no longer required; an increase to the cost of providing service; and an increase in the likelihood of capital expenditures to replace damaged infrastructure.

To the extent climate change impacts a region's economic health, it may also impact the Company's revenues, costs, and capital structure and thus the need for changes to rates charged to regulated customers. Rate changes themselves can impact the economic health of the communities served and may in turn adversely affect the Company's operating results.

Increased derivative regulation could impact results.

The Company uses commodity derivative instruments in conjunction with procurement activities. The Company may also periodically use interest rate derivative instruments to minimize the impact of interest rate fluctuations associated with anticipated debt issuances.

Regulations related to the use of derivatives that became law in 2010 under the Dodd-Frank Wall Street Reform and Consumer Protection Act continue to evolve and their ultimate application remains uncertain. Depending on the continued evolution of the regulations adopted by the Commodity Futures Trading Commission (CFTC) and other agencies, the Company may be required to post additional collateral with dealer counterparties for commitments and interest rates, physical or financial commodity derivative transactions and report or otherwise disclose such activity to dealer counterparties or other agencies. The law provides for an exception from these clearing and cash collateral requirements for commercial end-users. Requirements to post collateral could limit cash for investment and for other corporate purposes or could increase debt levels and resulting interest expense. In addition, a requirement for counterparties to post collateral could result in additional costs associated with executing transactions, thereby decreasing profitability. An increased collateral requirement could also reduce the Company's ability to execute derivative transactions to reduce commodity price and interest rate uncertainty and to protect cash flows. The regulations may also limit the pool of potential counterparties and/or the liquidity in the respective markets for such transactions.

Significant rule-making by numerous governmental agencies, particularly the CFTC, continues to evolve and has been subject to a number of extensions and delays. The Company continues to evaluate the impacts as these rulemakings and interpretations become available and whether these rulemakings and interpretations affirm that exemptions apply to the Company's use of derivative instruments.

From time to time, Utility Holdings is subject to material litigation and regulatory proceedings.

From time to time, the Company may be subject to material litigation and regulatory proceedings including matters involving compliance with state and federal laws, regulations or other matters. There can be no assurance that the outcome of these matters will not have a material adverse effect on the Company's business, prospects, corporate reputation, results of operations, or financial condition.

The investment performance of Vectren's pension plan holdings and other factors impacting pension plan costs could impact the Company's liquidity and results of operations.

The costs associated with Vectren's sponsored retirement plans are dependent on a number of factors, such as the rates of return on plan assets; discount rates; the level of interest rates used to measure funding levels; changes in actuarial

assumptions; future government regulation; and Vectren contributions. In addition, Vectren could be required to provide for significant funding of these defined benefit pension plans. Vectren relies on Utility Holdings to fund a majority of the contributions to these plans. Such cash funding obligations could have a material impact on liquidity by reducing cash flows for other purposes and could negatively affect results of operations.

Catastrophic events, such as terrorist attacks, acts of war, and acts of God, may adversely affect the Company's facilities and operations and corporate reputation.

Catastrophic events such as fires, earthquakes, explosions, floods, ice storms, tornados, terrorist acts, cyber-attacks, or similar occurrences could adversely affect the Company's facilities, operations, corporate reputation, financial condition and results of operations. Either a direct act against company-owned generating facilities or transmission and distribution infrastructure or an act against the infrastructure of neighboring utilities or interstate pipelines that are used by the Company to transport power and natural gas could result in the Company being unable to deliver natural gas or electricity for a prolonged period. Further, the Company relies on information technology networks and systems to operate its generating facilities, engage in asset management activities, and process, transmit and store electronic information. Security breaches of this information technology infrastructure could lead to system disruptions, generating facility shutdowns or unauthorized disclosure of confidential information. In the event of a severe disruption resulting from such events, the Company has contingency plans and employs crisis management to respond and recover operations. Despite these measures, if such an attack or security breach were to occur, results of operations and financial condition could be materially adversely affected.

Workforce risks could affect Utility Holdings' financial results.

The Company is subject to various workforce risks, including but not limited to, the risk that it will be unable to attract and retain qualified and diverse personnel; that it will be unable to effectively transfer the knowledge and expertise of an aging workforce to new personnel as those workers retire; that it will be unable to react to a pandemic illness; and that it will be unable to reach collective bargaining arrangements with the unions that represent certain of its workers, which could result in work stoppages.

The performance of Vectren's nonutility businesses may impact Utility Holdings.

Execution of Vectren's nonutility business strategies and the success of efforts to invest in and develop new opportunities in the nonutility business area are subject to a number of risks.

Related to Vectren's nonutility infrastructure services activities, Vectren Infrastructure Services Corporation (VISCO), is wholly owned by Vectren and provides underground pipeline construction and repair to Utility Holdings' utility infrastructure. Risks specific to VISCO's strategies include, but are not limited to, success in bidding contracts; variations in the volume of contract work; unanticipated cost increases in completion of the contracted work; increases to funding requirements associated with multiemployer pension plans; the ability to attract and retain qualified employees; cancellation of projects by customers and/or reductions in the scope of the projects; ability to obtain materials and equipment required to perform services from suppliers and manufacturers.

Related to Vectren's nonutility coal mining activities, Vectren Fuels, Inc. is wholly owned by Vectren and is a supplier of coal to Utility Holdings' Indiana electric utility. Risks specific to Vectren's coal mining strategies include, but are not limited to, failure to fully access coal at owned mines; failure for the contract operator to operate owned mines in accordance with MSHA guidelines and regulations, recent interpretations of those guidelines and regulations, and any new guidelines or regulations that could be implemented and to respond to more frequent and broader inspections, including increased levels of citations which may result in coal mining operations being classified as having a Pattern of Violation (POV) and resulting in a significant decrease in productivity and increased costs; failure to negotiate and

execute new sales contracts; failure to adapt to any new laws or rules, such as climate change or air quality legislation, that impact users of coal; failure to manage coal mining production and production costs and other risks in response to changes in demand; changes in market demand for Vectren Fuels' coal including impacts of fuel switching to alternative sources and coal specifications in terms of sulfur and mercury, among others; geologic, equipment, and operations risks; supplier and contract miner performance; the availability of miners, key equipment and commodities; availability of transportation; the ability to access/replace coal reserves; significant variations in weather that could impact coal sales and production; and unanticipated changes in coal commodity prices.

In addition, there are other risks impacting Vectren's nonutility operations including the effects of weather; failure of installed performance contracting products to operate as planned; failure to properly estimate the cost to construct projects; failure to develop or obtain gas storage field and mining property; potential legislation that may limit CO₂ and other greenhouse gas emissions; creditworthiness of customers and joint venture partners; changes in federal, state or local legal requirements, such as changes in tax laws or rates; and changing market conditions.

Credit ratings of individual entities within a consolidated organization can be influenced by changes in business prospects and developments of other entities within that organization. Thus, material adverse developments affecting those other entities related to Vectren could result in a downgrade in Utility Holdings' credit ratings or outlook, limit its ability to access the debt markets, bank financing and commercial paper markets and, thus, its liquidity.

Vectren's nonutility businesses support Utility Holdings' utilities pursuant to service contracts by providing coal and infrastructure services. In most instances, Vectren's ability to maintain these service contracts depends upon regulatory discretion and negotiation with interveners, and there can be no assurance that it will be able to obtain future service contracts, or that existing arrangements will not be revisited.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Gas Utility Services

Indiana Gas owns and operates four active gas storage fields located in Indiana covering 58,100 acres of land with an estimated ready delivery from storage capability of 5.6 BCF of gas with maximum peak day delivery capabilities of 143,500 MCF per day. Indiana Gas also owns and operates three propane plants located in Indiana with the ability to store 1.5 million gallons of propane and manufacture for delivery 33,000 MCF of manufactured gas per day. In addition to its company owned storage and propane capabilities, Indiana Gas has contracted for 15.1 BCF of interstate natural gas pipeline storage service with a maximum peak day delivery capability of 229,200 MMBTU per day. Indiana Gas' gas delivery system includes 13,100 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.

SIGECO owns and operates three active underground gas storage fields located in Indiana covering 6,100 acres of land with an estimated ready delivery from storage capability of 6.3 BCF of gas with maximum peak day delivery capabilities of 108,500 MCF per day. In addition to its company owned storage delivery capabilities, SIGECO has contracted for 0.4 BCF of interstate pipeline storage service with a maximum peak day delivery capability of 16,800 MMBTU per day. SIGECO's gas delivery system includes 3,200 miles of distribution and transmission mains, all of which are located in Indiana.

VEDO has contracted for 11.8 BCF of natural gas delivery service with a maximum peak day delivery capability of 246,100 MMBTU per day. While the Company still has title to this delivery capability, it has released it to those retail gas marketers now supplying VEDO's customers with natural gas, and those suppliers are responsible for the demand charges. VEDO's gas delivery system includes 5,500 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, 2013, was rated at 1,298 MW. SIGECO's coal-fired generating facilities are the Brown Station with two units of 490 MW of combined capacity, located in Posey County approximately eight miles east of Mt. Vernon, Indiana; the Culley Station with two units of 360 MW of combined 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: two 80 MW gas turbines (Brown Unit 3 and Brown Unit 4) 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, 50 MW and Broadway Avenue Unit 2, 65 MW); and two Northeast Gas Turbines located northeast of Evansville in Vanderburgh County, Indiana with a combined capacity of 20 MW. 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. In 2009, SIGECO, with IURC approval, purchased a landfill gas electric generation project in Pike County, Indiana with a total capability of 3 MW.

SIGECO's transmission system consists of 1,022 circuit miles of 345Kv, 138Kv and 69Kv lines. The transmission system also includes 36 substations with an installed capacity of 4,833 megavolt amperes (Mva). The electric distribution system includes 4,339 pole miles of lower voltage overhead lines and 390 trench miles of conduit containing 2,042 miles of underground distribution cable. The distribution system also includes 95 distribution substations with an installed capacity of 2,986 Mva and 52,200 distribution transformers with an installed capacity of 2,318 Mva.

SIGECO owns utility property outside of Indiana approximating 24 miles of 138Kv and 345Kv electric transmission lines, which are included in the 1,022 circuit miles discussed above. These assets are located in Kentucky and interconnect with Louisville Gas and Electric Company's transmission system at Cloverport, Kentucky and with Big Rivers Electric Cooperative at Sebree, Kentucky.

Property Serving as Collateral

SIGECO's properties are subject to the lien of the First Mortgage Indenture dated as of April 1, 1932, between SIGECO and Bankers Trust Company, 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 and audits and reviews by taxing authorities and other government agencies arising in the normal course of business. In the opinion of management, there are no legal proceedings or other regulatory reviews or audits pending against the Company that are likely to have a material adverse effect on its financial position, results of operations, or cash flows. See the notes to the consolidated financial statements regarding commitments and contingencies, environmental matters, and rate and regulatory matters. The consolidated financial statements are included in "Item 8 Financial Statements and Supplementary Data."

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Market Price

All of the outstanding shares of Utility Holdings' common stock are owned by Vectren. Utility Holdings' common stock is not traded. There are no outstanding options or warrants to purchase Utility Holdings' common equity or securities convertible into Utility Holdings' common equity. Additionally, Utility Holdings has no plans to publicly offer its common equity securities.

Dividends Paid to Parent

In the first quarter of 2014, Utility Holdings paid a \$27.1 million dividend to its parent company.

During 2013, Utility Holdings paid dividends of \$26.3 million to its parent company in each quarter.

During 2012, Utility Holdings paid dividends of \$25.0 million to its parent company in the first quarter and \$25.5 million in each of the second through fourth quarters.

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

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.

(In millions)	Year Ended December 31,				
	2013	2012	2011	2010	2009
Operating Data:					
Operating revenues	\$1,429.6	\$1,333.6	\$1,457.0	\$1,563.7	\$1,596.2
Operating income	281.6	286.8	281.8	277.0	238.0
Net income	141.8	138.0	122.9	123.9	107.4
Balance Sheet Data:					
Total assets	\$4,140.8	\$4,046.8	\$3,974.5	\$3,924.5	\$3,823.1
Long-term debt - net of current maturities & debt subject to tender	1,257.1	1,103.4	1,208.2	1,024.8	1,254.8
Common shareholder's equity	1,432.8	1,390.0	1,346.6	1,315.4	1,274.7

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

Utility Holdings generates revenue primarily from the delivery of natural gas and electric service to its customers. Utility Holdings' primary source of cash flow results from the collection of customer bills and the payment for goods and services procured for the delivery of gas and electric services. Utility Holdings segregates its utility operations between a Gas Utility Services operating segment and an Electric Utility Services operating segment.

Vectren has in place a disclosure committee that consists of senior management as well as financial management. The committee is actively involved in the preparation and review of Utility Holdings' SEC filings.

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

Executive Summary of Consolidated Results of Operations

During 2013, Utility Holdings earned \$141.8 million, compared to \$138.0 million in 2012 and \$122.9 million in 2011. The improved results in 2013 are primarily related to increased electric utility earnings, driven by higher margin and reduced interest expense associated with recent refinancing activity. Increased earnings in 2012 compared to 2011 reflect, among other things, the impacts of new electric base rates implemented on May 3, 2011.

Gas utility services

The gas utility segment earned \$55.7 million during the year ended December 31, 2013, compared to earnings of \$60.0 million in 2012 and \$52.5 million in 2011. Though customer margin increased in 2013 from customer growth and return earned on increased investment in infrastructure replacements, particularly in Ohio, increased operating costs more than offset those margin increases. The increased operating costs were primarily the result of the acceleration of maintenance projects that were completed in the current year. Though higher in 2013, the total Utility Holdings' operating costs are being managed to be generally flat to the original 2012 targeted level of approximately \$280 million on an annual basis, over time. Depreciation expense also increased, reflecting the additions of plant in service. Interest expense was favorably impacted in 2013 and 2012 by financing transactions completed in 2013 and 2011. In 2011, earnings were unfavorably impacted by increased operating expenses associated with planned maintenance activities, environmental remediation efforts, and a brief work stoppage related to bargaining unit labor negotiations.

Electric utility services

The electric operations earned \$75.8 million during 2013, compared to \$68.0 million in 2012 and \$65.0 million in 2011. Results improved in 2013 due primarily to higher wholesale margins, net of sharing with customers, increased return on transmission investments, and lower interest expense. Results in 2012 and 2011 were positively impacted by new electric base rates implemented on May 3, 2011.

Other utility operations

In 2013, e