

VECTREN UTILITY HOLDINGS INC
Form 10-K
March 08, 2018

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, 2017
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	35-2104850
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One Vectren Square	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:

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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, 2017, 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.

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Common Stock - Without Par Value	10	February 28, 2018
Class	Number of Shares	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

Administration: President Trump's Administration IRP: Integrated Resource Plan

AFUDC: allowance for funds used during construction

kV: Kilovolt

ASC: Accounting Standards Codification

MDth / MMDth: thousands / millions of dekatherms

ASU: Accounting Standards Update

MISO: Midcontinent Independent System Operator

BTU / MMBTU: British thermal units / millions of BTU

MCF / BCF: thousands / billions of cubic feet

DOT: Department of Transportation

MW: megawatts

EPA: Environmental Protection Agency

MWh / GWh: megawatt hours / thousands of megawatt hours (gigawatt hours)

FAC: Fuel Adjustment Clause

NERC: North American Electric Reliability Corporation

FASB: Financial Accounting Standards Board

OCC: Ohio Office of the Consumer Counselor

FERC: Federal Energy Regulatory Commission

OUCC: Indiana Office of the Utility Consumer Counselor

GAAP: Generally Accepted Accounting Principles

PHMSA: Pipeline Hazardous Materials Safety Administration

GCA: Gas Cost Adjustment

PUCO: Public Utilities Commission of Ohio

IURC: Indiana Utility Regulatory Commission

TCJA: Tax Cuts and Jobs Act

IRC: Internal Revenue Code

Throughput: combined gas sales and gas transportation volumes

IDEM: Indiana Department of Environmental Management

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:

David E. Parker

Director, Investor Relations vvcir@vectren.com

Table of Contents

Item Number		Page Number
Part I		
1	Business	<u>5</u>
1A	Risk Factors	<u>9</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>20</u>
6	Selected Financial Data	<u>20</u>
7	Management's Discussion and Analysis of Results of Operations and Financial Condition	<u>20</u>
7A	Quantitative and Qualitative Disclosures About Market Risk	<u>48</u>
8	Financial Statements and Supplementary Data	<u>50</u>
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>94</u>
9A	Controls and Procedures, including Management's Assessment of Internal Control over Financial Reporting	<u>94</u>
9B	Other Information	<u>94</u>
Part III		
10	Directors, Executive Officers and Corporate Governance ^(A)	<u>95</u>
11	Executive Compensation ^(A)	<u>95</u>
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters ^(A)	<u>95</u>
13	Certain Relationships, Related Transactions and Director Independence ^(A)	<u>95</u>
14	Principal Accountant Fees and Services	<u>95</u>
Part IV		
15	Exhibits and Financial Statement Schedules	<u>97</u>
	Signatures	<u>104</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 or the Company's parent) three operating public utilities: Indiana Gas Company, Inc. (Indiana Gas or Vectren Energy Delivery of Indiana - North), Southern Indiana Gas and Electric Company (SIGECO or Vectren Energy Delivery of Indiana - South), and Vectren Energy Delivery of Ohio, Inc. (VEDO). Herein, 'the Company' may also refer to Indiana Gas Company, Inc., Southern Indiana Gas and Electric Company, Inc. and/or Vectren Energy Delivery of Ohio, Inc. The Company 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 the Company are holding companies as defined by the Energy Policy Act of 2005.

Indiana Gas provides energy delivery services to approximately 592,400 natural gas customers located in central and southern Indiana. SIGECO provides energy delivery services to approximately 145,200 electric customers and approximately 111,500 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 318,100 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 about 20 percent of Ohio, primarily in the west-central area. The Electric Utility Services segment includes the operations of SIGECO's electric transmission and distribution services, which provides electric transmission and distribution services to southwestern Indiana, and includes its power generating and wholesale power operations. In total, these regulated operations supply natural gas and electricity to over one million customers.

At December 31, 2017, the Company had \$5.5 billion in total assets, with approximately \$3.5 billion attributed to Gas Utility Services, \$1.8 billion attributed to Electric Utility Services, and \$0.2 billion attributed to Other Operations. Net income for the year ended December 31, 2017 and 2016, was \$175.8 million and \$173.6 million, respectively. For further information regarding the activities and assets of operating segments, refer to Note 13 in the Consolidated Financial Statements included in Item 8.

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

Gas Utility Services

In 2017, the Company supplied natural gas service to approximately 1,022,000 Indiana and Ohio customers, including 934,800 residential, 85,500 commercial, and 1,700 industrial and other contract customers. Gas utility customers served were approximately 1,014,000 in 2016 and 1,004,800 in 2015.

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, 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.

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 219.3 MMDth for the year ended December 31, 2017. Gas sold and transported to residential and commercial customers was 97.1 MMDth representing 44 percent of throughput. Gas transported or sold to industrial and other contract customers was 122.2 MMDth representing 56 percent of throughput.

For the year ended December 31, 2017, gas utility revenues were \$812.7 million, of which residential customers accounted for 67 percent and commercial accounted for 22 percent. Industrial and other contract customers accounted for 11 percent of revenues. Rates for transporting gas generally provide for the same margins earned by selling gas under applicable sales tariffs.

Availability of Natural Gas

The volume 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 enter into short-term and long-term contracts with third party suppliers to purchase natural gas. Certain contracts are firm commitments under five and ten-year arrangements. During 2017, the Company, through its utility subsidiaries, purchased all of its gas supply from third parties and 67 percent was from a single third party.

Natural Gas Purchasing Activity in Ohio

On April 30, 2008, the PUCO issued an order which approved an exit from the merchant function in the Company's Ohio service territory. As a result, substantially all of the Company's Ohio customers purchase natural gas directly from retail gas marketers rather than from the Company. Exiting the merchant function has not had a material impact on earnings or financial condition.

Total Natural Gas Purchased Volumes

In 2017, the Company purchased 66.1 MMDth volumes of gas at an average cost of \$4.02 per Dth inclusive of demand charges. The average cost of gas per Dth purchased for the previous four years was \$3.75 in 2016, \$3.96 in 2015, \$5.42 in 2014, and \$4.60 in 2013.

Electric Utility Services

In 2017, the Company supplied electric service to approximately 145,200 Indiana customers, including approximately 126,400 residential, 18,600 commercial, and 200 industrial and other customers. Electric utility customers served were approximately 144,400 in 2016; 143,600 in 2015.

The principal industries served include plastic products; automotive assembly and steel finishing; pharmaceutical and nutritional products; automotive glass; gasoline and oil products; ethanol; and coal mining.

Revenues

For the year ended December 31, 2017, retail electricity sales totaled 4,757.6 GWh, resulting in revenues of approximately \$527.2 million. Residential customers accounted for 38 percent of 2017 revenues; commercial 29 percent; industrial 31 percent; and other 2 percent. In addition, in 2017 the Company sold 463.2 GWh through wholesale activities principally to the Midcontinent Independent System Operator (MISO). Wholesale revenues, including transmission-related revenue, totaled \$42.4 million in 2017.

System Load

Total load for each of the years 2013 through 2017 at the time of the system summer peak, and the related reserve margin, is presented below in MW.

Date of summer peak load	7/21/2017	6/22/2016	7/29/2015	8/27/2014	8/30/2013
Total load at peak	1,042	1,096	1,088	1,095	1,102
Generating capability	1,248	1,248	1,248	1,298	1,298
Purchase supply (effective capacity)	36	37	37	38	38
Interruptible contracts & direct load control	53	75	72	71	48
Total power supply capacity	1,337	1,360	1,357	1,407	1,384
Reserve margin at peak	28	% 24	% 25	% 22	% 25

The winter peak load for the 2016-2017 season of approximately 822 MW occurred on December 15, 2016. The prior year winter peak load for the 2015-2016 season was approximately 868 MW, occurring on January 13, 2016.

Generating Capability

Installed generating capability as of December 31, 2017, was rated at 1,248 MW. Coal-fired generating units provide 1,000 MW of capacity, natural gas or oil-fired turbines used for peaking or emergency conditions provide 245 MW, and a landfill gas electric generation project provides 3 MW. Electric generation for 2017 was fueled by coal (97 percent), natural gas (2 percent), and landfill gas (less than 1 percent). Oil was used only for testing of gas/oil-fired peaking units. The Company generated approximately 4,578 GWh in 2017. Further information about the Company's owned generation is included in "Item 2 Properties."

Coal for coal-fired generating stations has been supplied from operators of nearby coal mines as there are substantial coal reserves in the southern Indiana area. Approximately 2.1 million tons were purchased for generating electricity during 2017. This compares to 1.9 million tons and 2.5 million tons purchased in 2016 and 2015, respectively. The Company's coal inventory was approximately 800 thousand tons at both December 31, 2017 and 2016.

Coal Purchases

The average cost of coal per ton purchased and delivered for the last five years was \$53.88 in 2017, \$54.24 in 2016, \$55.22 in 2015, \$55.18 in 2014, and \$58.38 in 2013. Entering 2014, SIGECO had in place staggered term coal contracts with Vectren Fuels and one other supplier to provide supply for its generating units. During 2014, SIGECO entered into separate negotiations with Vectren Fuels and Sunrise Coal, LLC (Sunrise Coal), an Indiana-based wholly owned subsidiary of Hallador Energy Company, to modify existing contracts as well as enter into new long-term contracts in order to secure its supply of coal with specifications that support its compliance with the Mercury and Air Toxins Rule. Subsequent to the sale of Vectren Fuels to Sunrise Coal in August 2014, all such contracts were assigned to Sunrise Coal and the Company purchases substantially all of its coal from Sunrise Coal.

Firm Purchase Supply

As part of its power portfolio, SIGECO is a 1.5 percent shareholder in the Ohio Valley Electric Corporation (OVEC), and based on its participation in the Inter-Company Power Agreement (ICPA) between OVEC and its shareholder companies, many of whom are regulated electric utilities, SIGECO has the right to 1.5 percent of OVEC's generating capacity output, which is approximately 32 MWs. Per the ICPA, SIGECO is charged demand charges which are based on OVEC's operating expenses, including its financing costs. Those demand charges are available to pass through to customers under SIGECO's fuel adjustment clause (FAC). Under the ICPA, and while OVEC's plants are operating, SIGECO is severally responsible for its share of OVEC's debt obligations. Based on OVEC's current financing,

SIGECO's 1.5 percent share of OVEC's debt obligation equates to approximately \$21 million. Recently, due to concerns regarding the potential default of one of OVEC's shareholders that holds a 4.9 percent interest under the ICPA, Moody's downgraded OVEC to Ba1 and Standard and Poor's revised its BBB- rating outlook from stable to negative. OVEC has represented it has both liquidity and financing capability that will allow it to

7

continue to operate and provide power to its participating members, who include American Electric Power, Duke Energy, and PPL Corporation. In 2017, the Company purchased approximately 141 GWh from OVEC. If a default were to occur by a member, any reallocation of the existing debt requires consent of the remaining ICPA participants. If any such reallocation were to occur, SIGECO would expect to recover any related costs through the FAC, as it does currently for its 1.5 percent share.

In April 2008, the Company executed a capacity contract with Benton County Wind Farm, LLC to purchase as much as 30 MW from a wind farm located in Benton County, Indiana, with IURC approval. The contract expires in 2029. In 2017, the Company purchased approximately 78 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. In 2017, the Company purchased 142 GWh under this contract. In total, wind resources provided 4 percent of total GWh sourced.

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 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 the 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 2017, in hours when purchases from the MISO were in excess of generation sold to the MISO, the net purchases were 494 GWh. During 2017, in hours when sales to the MISO were in excess of purchases from the MISO, the net sales were 463 GWh.

Interconnections

The Company has inte